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Place:
Washington, D.C.

Date:
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PROPOSED SALE OF THE MINNEAPOLIS & ST. LOUIS RAILROAD

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON INTERSTATE COMMERCE UNITED STATES SENATE

SEVENTY-FOURTH CONGRESS

SECOND SESSION

ON

S. Res. 287

A RESOLUTION AUTHORIZING AN INVESTIGATION OF THE PROPOSED DISMEMBERMENT OF THE MINNEAPOLIS & ST. LOUIS RAILROAD, AND REQUESTING THE INTERSTATE COMMERCE COMMISSION TO WITHHOLD APPROVAL OF SUCH DISMEMBERMENT UNTIL AFTER SUCH INVESTIGATION SHALL HAVE BEEN COMPLETED

MAY 13 TO 28, 1936

Printed for the use of the Committee on Interstate Commerce

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PROPOSED SALE OF MINNEAPOLIS & ST. LOUIS RAILROAD

WEDNESDAY, MAY 13, 1936

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON INTERSTATE COMMERCE,
Washington, D. C.

The subcomittee met, pursuant to call of the chairman of the subcommittee, at 10:30 a. m., in the caucus room, Senate Office Building, Senator Henrik Shipstead (chairman of the subcommittee) presiding.

Present: Senators Shipstead (chairman of the subcommittee), Dieterich, Truman, and Benson.

Also present: Senators Bulow, Moore, and Murphy.

Senator SHIPSTEAD. There is a quorum of the subcommittee present. The subcommittee will come to order. Senate Resolution 287, under which the subcommittee is holding the hearings, will be printed in the record at this point.

(S. Res. 287 is as follows:)

[S. Res. 287, 74th Cong., 2d sess.]

RESOLUTION

Whereas hearings are now being conducted by the Interstate Commerce Commission with a view to approval or disapproval of the dismemberment of the Minneapolis and Saint Louis Railroad and its piecemeal sale to seven other railroads now organized for purposes of this transaction into the Associated Railway Company; and

Whereas the Reconstruction Finance Corporation has appeared at said hearings through its representative, John W. Barringer III, and has actively advocated and encouraged the proposed dismemberment; and

Whereas the said John W. Barriger III, as representative of the Reconstruction Finance Corporation, has admitted having held conferences with officials of the railroads seeking to participate in the piecemeal purchase of the Minneapolis and Saint Louis Railroad, but has declined in his testimony to disclose the origin of the dismemberment proposal; and

Whereas the railroads comprising the Associated Railways Company are now indebted to the Reconstruction Finance Corporation for about $90,000,000 and propose to borrow $7,200,000 more to carry out the purchase of the Minneapolis and Saint Louis Railroad; and

Whereas the Minneapolis and Saint Louis Railroad has in the past year shown a decided improvement in its operating finances, is reported to be valued by the Interstate Commerce Commission at more than $35,000,000, and its sale to Associated Railways Company, including its one thousand six hundred miles of track, is proposed at a price of only about $8,300,000; and

Whereas the management of the Minneapolis and Saint Louis Railroad expects its operations to gross from $9,000,000 to $10,000,000 this year with a net profit of $750,000, and such earnings would justify a capitalization of at least $17,000,000, or $10,000,000 more than Associated Railways offers to pay; and

Whereas under the Interstate Commerce Commission's own method of computation, supplies and equipment of the Minneapolis and Saint Louis Railroad have been found to be worth $5,609,000, and its Minneapolis terminal has been valued by the Interstate Commerce Commission at more than $4,000,000, and these values are in addition to the value of right-of-way, rails, ties, shops, factories, and stations; and

Whereas the sale and dismemberment of the Minneapolis and Saint Louis Railroad proposes abandonment of some five hundred and fifty miles of its trackage; and

Whereas such abandonment would deprive more than one hundred communities in Minnesota, South Dakota, Iowa, and Illinois of services and facilities and would tend to convert these northwest communities into ghost towns and deserted villages; and

Whereas the effects of such sale and dismemberment are so obviously disastrous to the four-State area affected that the Great Western Railroad, through its president, P. H. Joyce, has withdrawn from the application of Associated Railways for dismemberment and publicly stated, "We do not care to be a party to depriving more than one hundred communities of the services and facilities they now enjoy"; and

Whereas more than three thousand Minneapolis and Saint Louis Railroad employees would be deprived of employment and their families deprived of their normal means of support, and the city of Minneapolis would be deprived of its second largest payroll in excess of $1,750,000; and

Whereas the business interests of Minneapolis and the business and agricultural interests of the four States—Minnesota, South Dakota, Iowa, and Illinois—and the vast membership of the entire twenty-one organizations of railroad labor, have united in unanimous protest against the break-up of the Minneapolis and Saint Louis Railroad, with its resultant demoralizing effect upon employment, destructive results to northwest transportation facilities, and vast loss of property values for taxation purposes; and

Whereas the Reconstruction Finance Corporation, despite the attitude of its representative, John W. Barriger III, is presumably and avowedly an agency of government set up for purposes of economic reconstruction rather than demoralization: Therefore be it

Resolved, That a special committee consisting of five Senators, with adequate representation from the districts to be affected by the proposed dismemberment, be appointed by the President of the Senate to investigate the social and economic effects, and the financial advisability or inadvisability of the proposed sale of the Minneapolis and Saint Louis Railroad to the Associated Railways Company, and further to investigate the origin of the dismemberment proposal, and to determine and pass upon the propriety of the activity of agents of the Reconstruction Finance Corporation in appearing as proponents of the dismemberment and sale; and be it further

Resolved, That the Interstate Commerce Commission be, and hereby is, requested to withhold approval of such dismemberment and sale until such time as the investigation, herewith authorized, shall have been completed, and the committee shall have reported to the Senate in the Seventy-fifth Congress its findings and recommendations.

Mr. SHIPSTEAD. The first witness is Mr. Sweet. To save time and to insure accuracy I have had prepared a list of questions for Mr. Sweet to be answered for the record.

The subcommittee is dealing with an application of the several railroad companies for loans to accomplish reorganization and dismemberment of the Minneapolis & St. Louis Railroad. The application is on file with the Interstate Commerce Commission. Instead of going through that application, in order to save time, I have asked Mr. Sweet to answer certain questions concerning the application, or to get an explanation of it, in answers to questions in the form of a questionnaire, so as to give Mr. Sweet the opportunity to get the information directly from the records. That has been done in order to save time of the subcommittee. Mr. Sweet is here and will be ready to go on. I thought there were to be prepared copies of the list of questions in sufficient number so that each Senator would have

a copy. It was also understood that answers to the questions would be contained in the same paper. Do you have a sufficient number, Mr. Sweet, for each member of the committee?

Mr. SWEET. I have only three copies, one for the chairman of the subcommittee, one for myself, and I have furnished one copy to the reporter.

Senator SHIPSTEAD. You have only three copies. I understood there was to be one for each Senator.

The application will be made a part of the record at this place.

(The application is as follows:)

Before the Reconstruction Finance Corporation. Application of Associated Railways Co., for a loan of $7,200,000.

APPLICATION

To the Reconstruction Finance Corporation:

Associated Railways Co., hereinafter called the "applicant", applies for a loan of $7,200,000, and shows—

1. The full corporate name of applicant is Associated Railways Co.

Applicant was incorporated under the laws of the State of Delaware on July 11, 1935, with perpetual existence. Applicant is not on the date hereof engaged in interstate commerce, but is authorized by its charter to engage in the business of transportation in interstate commerce as a common carrier by railroad.

On or about September 8, 1935, applicant and other carriers filed their joint application to the Interstate Commerce Commission in Finance Docket No. 10947, wherein this applicant asks the Commission, among other things, for authority to purchase the existing line of railroad and properties owned and operated by Minneapolis & St. Louis Railroad Co. and its receivers, for authority thereafter to abandon certain portions thereof and to dispose of certain other portions thereof to the several railway companies who are likewise parties to said joint application, and for authority to issue its securities in connection with said purchase. A copy of said application is furnished herewith. The location, description, and mileage of the several portions to be abandoned are set forth in section B of part I of said application; the location, description, and mileage of the several portions which are to be retained and operated by said railway companies, respectively, are set forth in part II of said application, entitled, "Separate Applications of Participating Railroads." A map showing the location and mileage of the several portions which will be continued in operation by the several railway companies acquiring the same, and of the portions to be abandoned, is attached hereto.

Said application is now pending before the Interstate Commerce Commission; if authority shall be granted as prayed for therein, this applicant proposes to bid for said railroad and other properties of said Minneapolis & St. Louis Railroad Co. and its receivers at foreclosure sale, and, if successful, applicant will take title thereto and will thereafter operate as a common carrier by railroad in interstate commerce, certain portions of said property consisting of the Minneapolis Terminals, which are described on pages 7 and 8 of said application; and applicant will so operate said terminals (either as owner or lessee) in interstate commerce prior to the time the loan herein sought is made.

The elements of value of the several portions of line which are not to be abandoned and which will be acquired by the respective applicants in said Finance Docket No. 10947, are set forth and described in said application therein and in applicant's return to the Interstate Commerce Commission's questionnaire relating to such acquisition, a copy of which is submitted herewith. Said return to questionnaire likewise shows the function which the several lines so acquired by the several applicants will perform in the operation of the several railway companies acquiring the same.

2. The name, title, and address of the person with whom conferences or correspondence should be had with respect to this application are William F. Peter, general counsel, Associated Railways Co., 139 West Van Buren Street, Chicago, Ill.

3. The loan of $7,200,000 which applicant now seeks will be used in payment for the lines of railway and other property acquired by applicant at said foreclosure sale; if the required purchase price be less than $7,200,000, the amount of the loan for which application is made will be reduced accordingly.

Applicant cannot secure the necessary funds, in whole or in part, from any other source. Applicant's officers have endeavored to secure the necessary funds from Continental Illinois National Bank & Trust Co. of Chicago, and from First National Bank, Chicago, Ill.; they stated to the chief executive officer of each of said banks the relevant facts concerning the applicant, the purposes of its organization, and the facts concerning the proposed loan, its purpose, terms and security. Applicant also endeavored to secure the necessary funds from National City Bank, New York City. None of the said banks was willing to make the loan.

4. Applicant consents to such examinations as the Reconstruction Finance Corporation may require for the purposes of the act and/or that reports of examinations by constituted authorities may be furnished by such authorities to Reconstruction Finance Corporation upon request therefor.

5. No agreement has been made, or will be made, by applicant to pay any person, association, firm, or corporation, either directly or indirectly, any commission or fee for the loan applied for, and no payments have been or will be made by the applicant.

6. The purpose of the loan and uses to which it will be applied are as follows:

To pay the amount required to be paid or assumed as the total purchase price by applicant (if its bid be accepted and the sale confirmed by the court in which the receivership proceedings of Minneapolis & St. Louis Railroad Co. are pending) for the railways and other properties offered at foreclosure sale to be held pursuant to decree of the United States court at Minneapolis, Minn.

Applicant is unable to state at this time the date or dates on which funds must be available, for the reason that applicant is unable to state at what time the Interstate Commerce Commission will make its report and order in the above-mentioned proceeding now pending before it; applicant is likewise unable to state at what date thereafter, in the event the Commission shall grant to applicant the authority prayed for, the said railroad and other properties will be offered at foreclosure sale.

7. Applicant has no existing financial relations with the United States.

8. Applicant desires the entire amount of the loan for a period of 10 years as nearly as may be from the date upon which said loan is made.

9. Upon information and belief, applicant states that as of June 30, 1917, the Interstate Commerce Commission found a final value for rate-making purposes of the common-carrier property of the Minneapolis & St. Louis Railroad Co. of $45,000,000, exclusive of working capital, material, and supplies, for owned and used property, and $1,010,833 for property owned but not used. The expenditures for additions and betterments, less retirements, from that date to January 1, 1935, amount to $1,209,337, according to the best information available to applicant.

10. Applicant has no subsidiary or affiliated organizations, nor is applicant a subsidiary of any organization, except that its stock will be owned in equal parts by the following carriers: North Western, Burlington, Milwaukee, or Great Western, Rock Island, Illinois Central.

11. Applicant has never been a party to the marshaling and distributing plan, 1931, of Railroad Credit Corporation, for the reason that applicant was not in existence prior to July 11, 1935.

12. See answer contained in paragraph 11, supra.

13. See answer to question 11, supra.

14. Applicant has neither applied for nor received loans from Railroad Credit Corporation, and does not intend to apply for such loans.

15. A statement of the principal commodities carried and of the 10 most important industries served by Minneapolis & St. Louis Railroad Co., or its receivers is attached hereto as exhibit 1.

16. The particular facts upon which applicant relies as to its present and prospective ability to repay the loan and to discharge its obligations in regard thereto, are:

Associated was incorporated by or in the interest of the following railroad companies:

Chicago & North Western Railway Co. (Charles P. Megam, trustee).

Chicago, Burlington & Quincy Railroad Co.

Chicago Great Western Railroad Co. (Patrick H. Joyce and Luther M. Walter, trustees).

Chicago, Milwaukee, St. Paul & Pacific Railroad Co. (H. A. Scandrett, Walter J. Cummings, and George I. Haight, trustees).

The Chicago, Rock Island & Pacific Railway Co. (Frank O. Lowden, James E. Gorman, and Joseph B. Fleming, trustees).

Great Northern Railway Co.

Illinois Central Railroad Co.

Minneapolis, St. Paul & Sault Ste. Marie Railway Co.

Said companies or their trustees own and operate systems of railroad in the area generally traversed by Minneapolis & St. Louis Railroad Co.'s lines, and said systems of railway connect with it at various points. Said companies have formulated a plan of acquisition of the railroad and properties of Minneapolis & St. Louis Railroad Co. whereby this applicant, or its representative, will make a bid fo rsaid railways and property at foreclosure sale and, if successful, take title thereto. Thereafter, this applicant proposes to abandon and remove certain parts of the line of railway so acquired, pursuant to the authority of the Interstate Commerce Commission, if that authority be granted as requested in the application above referred to. This applicant proposes to execute and deliver a mortgage constituting liens upon the several lines of railway which are not to be abandoned, and to issue and sell $7,200,000 of bonds secured by said mortgage. Said bonds will mature 10 years from date and bear interest at the rate of 4 percent per annum; they will be issued in separate series each of which will be separately designated by letter, beginning with series A, and each series will constitute a separate lien upon one of the portions of the railway, or undivided interest therein, or interest in terminals sold and conveyed by this applicant to the following-named companies, or their respective trustees:

Grantee	Face amount of bonds	Designation
North Western, including an undivided interest in the lines to be owned jointly with the Rock Island, jointly with the Illinois Central, and its undivided interest in the terminal properties at Mason City and Minneapolis.	$1,189,000	Series A.
Burlington, including an undivided interest in the terminal properties at Oskaloosa and Minneapolis.	1,259,000	Series B.
Great Western or Milwaukee, including an undivided interest in the terminal properties at Minneapolis, Oskaloosa, and Mason City.	1,921,000	Series C.
Rock Island, including its undivided interest in the line to be owned jointly with the North Western, and its undivided interest in the terminal properties at Mason City and Minneapolis.	1,087,000	Series D.
Great Northern, including the salvage of line from Marietta to Watertown, S. Dak.	107,000	Series E.
Illinois Central, undivided interest in line to be owned jointly with the North Western, and its undivided interest in the terminal properties at Minneapolis.	1,123,000	Series F.
Soo Line, ⅓ undivided interest in terminal properties at Minneapolis	257,000	Series G.
Great Western or Milwaukee, ⅓ undivided interest in terminal properties in Minneapolis.	257,000	Series H.[1]
Total face value of associated bonds	7,200,000	

[1] The property covered by series C bonds will be acquired by either the Milwaukee or the Great Western, as explained in the application in Finance Docket 10947; inasmuch as both companies will acquire an undivided interest (½ each) in the Minneapolis Terminals, series H bonds will constitute a separate lien upon the undivided interest of that one of said companies which does not acquire the property covered by the lien of series C bonds.

The deed of conveyance from this applicant to each of the above-named companies will be made for a consideration of $1 in each case, and will be subject to the lien of this applicant's aforesaid mortgage and the particular series of bonds thereunder which constitute a lien upon the property so conveyed to each grantee. Each of said grantees will execute and deliver to the Reconstruction Finance Corporation an instrument guaranteeing, without restriction, the payment of the principal of and interest upon the bonds issued by this applicant constituting a lien upon the property conveyed to it. Each series of bonds will constitute a first lien upon the properties covered thereby; or, if any of the bonds of the Minneapolis and St. Louis Railroad Co., or its predecessors in interest, remain unpaid, sufficient of applicant's said bonds will be reserved and used for the purpose of paying off and retiring the same.

Applicant proposes to dispose of, to best advantage and as rapidly as possible, the materials and other property (including right-of-way and other lands) recoverable from the lines of railway sought to be abandoned herein; likewise, to dispose of all equipment, rolling stock, all materials and supplies, whether in store account or distributed, and all miscellaneous assets. The net proceeds

arising from the disposition of all such property, including salvage from lines abandoned (except salvage on the line Marietta, Minn., to Watertown, S. Dak.) will be paid over directly by applicant to Reconstruction Finance Corporation in payment and reduction pro tanto of principal of the bonds issued by the applicant against the property conveyed to each of the following-named companies or their trustees:

Chicago & North Western Railway Co.
Chicago, Burlington & Quincy Railroad Co.
Chicago, Milwaukee, St. Paul & Pacific Railroad Co., or
Great Western Railroad Co.
The Chicago, Rock Island & Pacific Railway Co.
Illinois Central Railroad Co.

Each of the said companies, or their trustees, will receive credit for one-fifth of the amount so paid. Likewise, proceeds of sale of any equipment subject to equipment trust certificates will be first applied to the payment of such certificates, principal and interest, and any balance will be paid over to the Reconstruction Finance Corporation, as aforesid. The net proceeds of salvage realized from the abandonment of the line between Marietta, Minn., and Watertown, S. Dak., will be paid by the Great Northern Railway Co. directly to the Reconstruction Finance Corporation in reduction of the principal of the bonds of this applicant issued against the above-described property which shall have been conveyed to said Great Northern Railway Co. as aforesaid.

17. A detailed description of the securities to be offered for the loan is as follows:

Seven million two hundred thousand dollars face amount of applicant's first-mortgage bonds secured by a first lien on approximately 1,009 miles of railway and appurtenances, together with various terminal properties at Minneapolis, Minn., Mason City, Iowa, and Oskaloosa, Iowa. Said bonds will be dated, as nearly as can be estimated, on June 1, 1936.

All of the bonds provided for in the mortgage will be issued simultaneously; these bonds will be divided into different series, each of which series will constitute a separate lien upon the property, or undivided interest therein, conveyed to each grantee, so that upon the payment in full of any series of said bonds, the particular property or properties, or undivided interest therein, upon which said series constitute a lien, may be thereupon released from the lien of the mortgage and said bonds. The mortgage will provide that any or all of the bonds issued thereunder may be called for payment on any interest date prior to maturity, at par, and accured interest to date of payment.

Each of the railroad companies, or their trustees, to which property of this applicant is to be conveyed pursuant to the general plan hereinbefore set forth, will execute and deliver to the Reconstruction Finance Corporation an instrument guaranteeing, without restriction, the payment of the principal of and interest on the bonds issued by this applicant against the property conveyed to such grantee.

18. Schedules A to R are submitted herewith.

19. Applicant submits herewith:

(*a*) A certified copy of its articles of incorporation, and of its bylaws, as the same exist on the date hereof.

(*b*) Preliminary opinion of counsel.

(*c*) Certified copy of resolutions of applicant's board of directors showing the authority of its officers to execute and deliver this application.

Applicants therefore request a loan of $7,200,000 for the purposes above specified.

Respectfully submitted.

ASSOCIATED RAILWAYS CO.,
By GEORGE W. HAND, *President.*

Attest:

R. T. SCHOLES, *Secretary.*

EXHIBIT 19–B. PRELIMINARY OPINION OF COUNSEL

CHICAGO, ILL., *March —, 1936.*

To the Reconstruction Finance Corporation:

The undersigned is general counsel of Associated Railways Co., applicant herein; he is familiar with the corporate powers of said applicant, and is of the opinion that applicant is authorized to apply for the loan stated in said application, and that when proper corporate action has been taken and the obligations executed, and security given or delivered as contemplated in said application, such obligations will constitute the valid and subsisting obligations of the applicant duly secured by a first and paramount lien on the same, or by a lien of the rank and priority stated in the application.

Respectfully submitted.

W. F. PETER,
General Counsel, Associated Railways Co.

EXHIBIT 19–C. ASSOCIATED RAILWAYS CO.

The chairman presented to the meeting a draft of application to Reconstruction Finance Corporation for a loan of $7,200,000, the proceeds of which will be used for the acquisition of the lines of railway and other properties of Minneapolis & St. Louis Railroad Co. and its receivers, if the same shall be acquired by this company pursuant to the plan set forth in the joint application to the Interstate Commerce Commission, Finance Docket No. 10947.

After discussion, upon motion duly made and seconded, it was

Resolved, That the president or vice president, and the secretary or assistant secretary, be and they are hereby authorized and directed to execute, verify, and deliver to the Reconstruction Finance Corporation an application for the purpose and in substantially the form and content of the draft of application, exhibits and schedules now submitted to this meeting.

Resolved further, That the president or vice president is hereby authorized to execute such other papers and documents which may be required in connection with the proposed loan referred to in said application; and is authorized to do all other acts and things which may be necessary or desirable in that behalf.

STATE OF ILLINOIS,
County of Cook, ss:

I, the undersigned, do hereby certify that I am the duly elected, qualified, and acting secretary of Associated Railways Co.; that the annexed and foregoing is a true and complete copy of resolutions unanimously adopted by the board of directors of said company at a meeting, duly and regularly called and held in the city of Chicago, Ill., on March 2, 1936, at which meeting a majority of said directors were present.

In witness whereof, I have hereunto set my hand and affixed the seal of said corporation this 14th day of March 1936.

[SEAL]

R. T. SCHOLES,
Secretary, Associated Railways Co.

EXHIBIT NO. 1

The following are the major industries served by the Minneapolis & St. Louis Railroad Co. Those in group 1 are served directly; those in group 2 are those to which the Minneapolis & St. Louis has access by means of switching connections:

Group 1.—Washburn Crosby Flour Mills, Minneapolis, Minn.; Eagle Roller Mills, New Ulm, Minn.; American Crystal Sugar Co., Chaska, Minn.; International Milling Co., New Prague, Minn.; Commander Milling Co., Montgomery, Minn.; Decker Packing Co., Mason City, Iowa (division of Armour & Co.); Midland Electric Coal Co., Middle Grove, Ill.; Northwestern States Portland Cement Co., Mason City, Iowa; Lehigh Portland Cement Co., Mason City, Iowa; Minneapolis Moline Power Implement Co., Hopkins, Minn.

Group 2.—Pillsbury Flour Mill Co., Minneapolis, Minn.; Certainteed Products Co., Fort Dodge, Iowa; U. S. Gypsum Co., Fort Dodge, Iowa.

Statement of principal commodities of Minneapolis & St. Louis Railroad.—Grain, flour and other mill products, products of agriculture, miscellaneous, livestock, fresh meat, coal, sand and gravel, oil and petroleum products, cement, and beverages.

SCHEDULE A.—ASSOCIATED RAILWAYS CO.

Applicant, at the date hereof, owns no property of any description. Supplemental information is given below with respect to the Minneapolis & St. Louis Railroad Co. and its receivers.

	First main track	Second main track	Side tracks	All tracks
Mileage owned Dec. 31, 1934	1,548.87	9.54	[1] 378.33	1,936.74
Mileage operated Dec. 31, 1934	1,647.62	27.76	408.33	2,083.71

[1] Does not include 12.07 miles leased to Railway Transfer Co. of city of Minneapolis, a wholly owned subsidiary.

Principal termini of road operated:
St. Paul, Minn., Peoria, Ill.
Hopkins, Minn., Leola, S. Dak.
Conde, S. Dak., Akaska, S. Dak.
Winthrop, Minn., Storm Lake, Iowa.
Spencer, Iowa, Oskaloosa, Iowa.
Albert Lea, Minn., Angus, Iowa.

Equipment

Locomotives	[1] 197
Passenger-car equipment	88
Freight-car equipment	5,245
Work equipment	237

[1] Includes 5 locomotives in service of Railway Transfer Co., of Minneapolis.

Number of units owned Dec. 31, 1934:

SCHEDULE B

(*a*) Applicant, Associated Railways Co., was organized in July 1935; it has engaged in no business and has had no income to date.

The following supplemental information is given with respect to the net railway operating income of the Minneapolis & St. Louis Railroad Co., and its receivers for the calendar years 1924–35, inclusive:

Calendar year	Receiver	Corporation	Total
		Credit	*Credit*
1924	[1] $776,280.92	$2,220,110.13	$2,996,391.05
1925	220,623.13	2,125,832.89	1,905,209.76
1926	125,168.84	2,142,305.09	2,017,136.25
1927	18,131.20	2,082,324.59	2,064,193.39
1928	413,058.38	2,133,466.50	1,720,408.12
1929	1,111,874.74	2,059,965.64	948,090.90
1930	390,781.34	2,081,625.57	1,690,844.23
1931	[1] 110,481.00	2,852,749.94	2,963,230.94
1932	[1] 538,906.44	2,871,579.94	3,410,486.38
1933	155,050.13	2,900,675.81	2,745,625.68
1934	[1] 41,604.17	2,901,467.38	2,943,071.55
1935	39,983.61	2,895,628.22	2,855,644.61

[1] Credit.

NOTE.—Revenues include increases in freight rates permitted by the Interstate Commerce Commission in Ex Parte No. 103.

(*b*) Neither applicant nor the Minneapolis & St. Louis Railroad Co., or its receivers, declared or paid any dividends for the several years 1924–35, inclusive.

(*c*) Since applicant owns no properties, it has no expenditures for maintenance of way or structures at any time.

On the sheet next attached supplemental information is furnished with respect to the Minneapolis & St. Louis Railroad Co. and its receivers.

(*d*) Associated Railways Co. has had no dividend income or income from funded securities or income from unfunded securities or miscellaneous income at any time.

SCHEDULE B (c)

The Minneapolis & St. Louis Railroad Co.

Period	Maintenance of way and structures			Maintenance of equipment		
	Receiver	Corporation (note B)	Total	Receiver	Corporation (note B)	Total
Calendar year:						
1924	$3,077,749.99	[1] $35,880.45	$3,041,869.54	$3,810,055.57	$44,318.48	$3,854,374.05
1925	2,462,862.36	[1] 20,271.63	2,442,590.73	3,239,861.41	16,213.78	3,256,075.19
1926	2,470,025.40	[1] 11,022.72	2,459,002.68	3,279,080.91	4,958.44	3,284,039.35
1927	2,228,452.44	[1] 2,441.13	2,226,011.31	3,135,383.82	9,178.16	3,144,561.98
1928	2,106,792.37	1,500.40	2,108,292.77	2,826,815.54	[1] 10,065.35	2,816,750.19
1929	1,871,412.90	1,142.45	1,872,555.35	2,524,850.32	[1] 16,854.41	2,507,995.91
1930	1,646,568.90	174.37	1,646,743.27	2,501,514.68	5,661.16	2,507,175.84
1931	1,367,942.26	2,669.52	1,370,611.78	2,054,732.62	7,509.06	2,062,241.68
1932	1,194,689.35	[1] 5,519.00	1,189,170.35	1,606,901.87	2,913.91	1,609,815.78
1933	930,985.11	1,442.31	932,427.42	1,544,601.48	2,670.50	1,547,271.98
1934	1,089,134.67	----------	1,089,134.67	1,518,202.46	3,581.22	1,521,783.68
1935	1,000,628.59	[1] 328.87	1,000,299.72	1,396,833.61	----------	1,396,833.61

[1] Credit.

NOTE B.—Includes items audited during the year applicable to the period prior to July 27, 1923.

SCHEDULE C

Applicant has thus far issued directors' shares only. If and when authorized by the Interstate Commerce Commission, pursuant to application in Finance Docket No. 10947, applicant will issue and sell for cash at par, its common capital stock, 80,000 shares of the par value of $1 each in equal proportions to the following carriers, or their respective trustees in bankruptcy: (1) Chicago & Northwestern; (2) Chicago, Burlington & Quincy; (3) Chicago, Great Western or Chicago, Milwaukee, St. Paul & Pacific; (4) Chicago, Rock Island & Pacific; (5) Illinois Central.

No individual, association, or corporation holds control, as trustee or otherwise, over the applicant.

SCHEDULE D

As applicant now owns no property it has no balance sheet, applicant's theoretical balance sheet, as submitted to the Interstate Commerce Commission in Finance Docket 10947, is set forth at page 79 of said application.

SCHEDULE E

Applicant's charter provides that the total number of shares of stock which applicant shall have the authority to issue is $80,000 of the par value of $1 per share. None of said stock has been issued except for qualifying shares to directors.

SCHEDULE F

Applicant has no long-term debt. Its sole indebtedness consists of advances made in equal amounts by six companies, or their trustees in bankruptcy, named in schedule C. The aggregate of such advances to date is approximately $18,000, and the same will be repaid out of the proceeds of sale of applicant's stock.

SCHEDULE G

Applicant has no loans and bills payable.

SCHEDULE H

Applicant has no loans and bills receivable.

SCHEDULE I

Applicant is not under obligation as guarantor or surety for the performance by any other corporation, association, firm, or individual of any agreement or obligation.

SCHEDULE J

Applicant has no unadjusted debits.

SCHEDULE K

Applicant has no unadjusted credits.

SCHEDULE L

Applicant owns no securities of other companies, pledged or unpledged.

SCHEDULE M

Applicant has not charged any amount to operating expenses under depreciation accounts for way and structures or for equipment. During the calendar years 1931–34 the receivers of the Minneapolis & St. Louis Railroad Co. have charged the following amounts for depreciation of equipment:

1931	$431,891.18
1932	404,730.69
1933	402,242.46
1934	398,302.98

SCHEDULE N

	First year	Second year	Third year	Fourth year	Fifth and subsequent years
(a) Nonoperating income:					
Account 508 joint facility rent income	[1] $9,300	$9,300	$9,300	$9,300	$9,000
Account 510 miscellaneous rent income	[1] 3,800	3,800	3,800	3,800	3,800
Account 511 miscellaneous nonoperating physical property	[1] 12,900	12,900	12,900	12,900	12,900
Account 518 contributions from other companies	[1] 261,100	264,300	267,400	268,500	272,600
Total nonoperating income	287,100	290,300	293,400	294,500	298,600
(b) Deductions from gross income: Account 544 miscellaneous tax accruals	[2] 8,000	8,000	8,000	8,000	8,000

[1] Based on year 1933 from accounts of the Minneapolis & St. Louis R. R. Co.
[2] Based on year 1934 from accounts of the Minneapolis & St. Louis R. R. Co.

SCHEDULE O

Under the plan set forth in the joint application, Finance Docket 10947, applicant will have no fixed charges excepting the interest on its $7,200,000 of 4-percent bonds hereinbefore referred to; this interest will be paid by the several carriers referred to in said application F. D. No. 10947, each paying the interest on the particular series of bonds constituting a lien upon the properties, or interest therein, acquired from applicant by each said carrier. Under the said plan, applicant will have no income. (See schedule N.)

SCHEDULE P

Nothing to report.

SCHEDULE Q

Nothing to report.

SCHEDULE R

Nothing to report.

STATE OF ILLINOIS,
County of Cook, ss:

George W. Hand makes oath and says that he is president of Associated Railways Co.; that he has carefully examined each and all of the statements contained in the foregoing application; that they are true and correct to the best of his knowledge and belief; that the foregoing application is made with the approval and at the direction of the board of directors or executive committee of said applicant as appears by resolution adopted at a meeting of said board, a verified copy of which is attached to the application, said meeting having been held at Chicago, Ill., on the second day of March 1936, and that he is the person who has been authorized by said board to execute the foregoing papers and any others that may be required in connection with the loan.

GEORGE W. HAND.

Subscribed and sworn to before me, a notary public in and for the State and county above named, this ——— day of March 1936.

———— ————, *Notary Public.*

My commission expires:

TESTIMONY OF OLIVER E. SWEET, DIRECTOR, BUREAU OF FINANCE, INTERSTATE COMMERCE COMMISSION, WASHINGTON, D. C.

(The witness was duly sworn by the chairman of the subcommittee.)

Senator SHIPSTEAD. Will you state your name, your address, and your occupation?

Mr. SWEET. Oliver E. Sweet, 7619 Thirteenth Street NW., Washington, D. C. I am director of the Bureau of Finance of the Interstate Commerce Commission.

Senator SHIPSTEAD. How long have you been Director of the Bureau of Finance of the Interstate Commerce Commission? Describe your duties.

Mr. SWEET. I was appointed Director of the Bureau of Finance and assumed office on the second day of September 1930. Generally the duties of my office are to oversee and direct the work of the employees of the Commission in the Bureau of Finance. And I, of course, have responsibility for the proceedings that are carried on in preliminary stages within the Bureau, and for recommendations that are made to the Interstate Commerce Commission.

Senator SHIPSTEAD. Will you state what functions are performed by the Finance Bureau of the Interstate Commerce Commission?

Mr. SWEET. There are cases that the Interstate Commerce Commission designate as finance cases. In those finance cases, when applications are filed, they are examined in a preliminary way in the Bureau to see that they comply with the requirements of the law as we understand those requirements, and also with the Commission's regulations, and to see that they furnish complete information upon the subjects of the different applications. In some of the proceedings, hearings are required by law or by the Commission's regulations, and in those cases the Bureau conducts the hearings. In other cases of a different nature, hearings are not required. The record is made principally upon returns to questionnaires and information furnished with the applications, and in those ex parte cases it is the function of the Bureau to see that the record is complete upon all questions presented.

Upon the completion of a record, either as the result of hearings or any one of the ex parte cases, the Bureau prepares a report. The report may be a so-called proposed report, or a report in final form. If the report is in the form of a proposed report it is served upon the parties before it is ever submitted to the Commission, and the parties have an opportunity then to take exceptions, file briefs in support of their exceptions, and, if they wish, to argue their exceptions to the proposed report before the Commission.

In the cases in which proposed reports are not used, the Bureau prepares a final report, which is submited directly to the Commission or a division of it, and along with the report the Bureau submits its recommendations as to the disposition of the case. In a word, that is taking care of all the preliminary work of investigation, and completing the record in these cases, so that the cases may be submitted in the best condition possible to the Commission for its consideration.

Senator SHIPSTEAD. Are all matters concerning applications for the issuance of securities, certificates permitting construction of new or additional lines of railway, or for abandonments of existing railway properties submitted to that Bureau?

Mr. SWEET. All applications of that character are; yes, sir.

Senator SHIPSTEAD. And you pass upon them and make your recommendations to the Commission?

Mr. SWEET. To the Commission or to a division of the Commission.

Senator SHIPSTEAD. What is the procedure on applications for security issues, acquisitions of property, or abandonments?

Mr. SWEET. The procedure differs slightly. You have referred to three different kinds of applications. In the case of security issues, carriers file an application for authority to issue securities, notes, or bonds, or other evidences of indebtedness, or for authority to assume obligation and liability with regard to some securities of another. When those are received they are examined in the Bureau to see that they are complete and that all the information required in an application is there; that it is consistent and in proper form; that there is proper corporate authority for what is proposed by the carrier. Then notices of the application are served upon the governors of all of the States in which the railroad making the application operates. The opportunity is afforded to the governors and also to the State commissions to make objections, if they have any, to the application.

Senator SHIPSTEAD. Then that application is passed upon by the Interstate Commerce Commission?

Mr. SWEET. Then after the time elapses for filing objections, if there are none, the report is prepared in the Bureau and submitted to the Commission for decision. If there are exceptions it is necessary to determine whether or not there should be a hearing. Very infrequently are there hearings in the securities cases. Occasionally there are. Applications for acquisitions of property under section 1, paragraph 18, are handled in very much the same way. If there are objections, however, in those cases there are usually hearings. The objections in those cases ordinarily are made by other carriers who are objecting to the proposal of one carrier to extend a line which may be competing, or something of that sort.

On abandonment applications the proceeding is very similar. The governors and the State commissions of the States are notified. In abandonment cases and also in acquisition cases a notice is published for 3 weeks in a newspaper of general circulation in each county in which the line proposed to be abandoned or acquired is located, and anybody may object in those cases. In abandonment cases it is not necessary for anyone formally to intervene. If there is any

objection, a hearing is held at some place convenient for the attendance of people who are interested in the abandonment, and they may come in and participate in the case without any formal intervention.

Senator SHIPSTEAD. Does the Interstate Commerce Commission have anything to do with applications made by carriers for loans from the Reconstruction Finance Corporation?

Mr. SWEET. Yes.

Senator SHIPSTEAD. Will you state just what is the procedure?

Mr. SWEET. Under the law the Reconstruction Finance Corporation may make loans to railroads with the approval of the Interstate Commerce Commission. A plan of procedure was worked out in 1932, very shortly after the Reconstrdction Finance Corporation Act was passed, under which a form of application was prescribed. Applications are prepared in accordance with what is known as Circular 2 issued by the Reconstruction Finance Corporation. The original and several copies of that application are filed with the Reconstruction Finance Corporation, and additional copies are filed with the Interstate Commerce Commission. The Interstate Commerce Commission acts first before the Reconstruction Finance Corporation passes on the application at all. That is for the reason that it is considered that the Reconstruction Finance Corporation has no authority to make a loan to railroads except with the prior approval of the Interstate Commerce Commission. When those applications are filed they are thoroughly investigated. All information deemed necessary to shed any light upon the purposes for which the loan is desired, and upon the ability of the carrier to pay, and upon the adequacy of the security, is gone into. The Bureau prepares a report which is submitted to the Interstate Commerce Commission or to Division 4 of the Commission, and its conclusions then are stated in a formal report which is forwarded to the Reconstruction Finance Corporation for its information.

Senator SHIPSTEAD. When a loan of that character or any character is desired by a railroad do they apply first to the Interstate Commerce Commission or do they apply first to the Reconstruction Finance Corporation?

Mr. SWEET. They file the same application simultaneously with the Reconstruction Finance Corporation and the Interstate Commerce Commission. As I stated, the Interstate Commerce Commission acts first.

Senator SHIPSTEAD. Do you have a copy of the application of the Associated Railroads in this case? I think the Interstate Commerce Commission finance docket is no. 10947.

Mr. SWEET. Yes; I have an application that was filed by Associated Railways and others, which has been assigned Interstate Commerce Commission finance docket no. 10947.

Senator BENSON. Who are the Associated Railways?

Mr. SWEET. The Associated Railways are a corporation that was organized by the several railroads which are proposing in this proceeding to acquire parts of the Minneapolis & St. Louis Railroad.

Senator BENSON. What are those railroads?

Mr. SWEET. Those railroads are the Chicago & North Western Railway Co.; Chicago, Burlington & Quincy Railroad Co.; Chicago

Great Western Railroad Co.; Chicago, Milwaukee, St. Paul & Pacific Railroad Co.; Frank O. Lowden, James E. Gorman, and Joseph B. Fleming, as trustees of the estate of the Chicago, Rock Island & Pacific Railway Co.; Great Northern Railway Co.; Illinois Central Railroad Co.; and Minneapolis, St. Paul & Sault Ste. Marie Railway Co. (application, pp. 1 and 2). Trustees of the Chicago & North Western and of the Milwaukee have since been permitted to join as parties to the proceedings (division 4's orders of Feb. 3 and 5, 1936). The Chicago Great Western has withdrawn its part of the application (transcript of testimony, p. 9).

Senator SHIPSTEAD. How many of these railroads are in the hands of receivers or undergoing reorganization or are in bankruptcy? Can you tell us?

Mr. SWEET. The Chicago & North Western Railway Co., the Chicago Great Western Railroad Co., the Chicago, Milwaukee, St. Paul & Pacific Railroad Co., the Chicago, Rock Island & Pacific Railway Co.

Senator SHIPSTEAD. The Associated Railways that made this application—were they an operating railroad company at the time of the filing of the application?

Mr. SWEET. According to the testimony of a Mr. Hand, who testified at a hearing which was held in this case in Minneapolis, the Associated Railways was not operating at the time it filed the application and is not now.

Senator DIETERICH. Would you not know, as a member of the Government agency to which you belong, whether or not they were an operating railroad company?

Mr. SWEET. We would know if they were operating legally, Senator.

Senator DIETERICH. They could not operate illegally, so why do you say that some witness testified that they were not? What do you say as to whether they were or were not?

Mr. SWEET. I said that, because they have no——

Senator DIETERICH. What do you say as a member of the Government agency to which you belong, in your official capacity, whether they were an operating railroad company or not?

Mr. SWEET. I have not been in that territory. I have no personal knowledge of that matter.

Senator DIETERICH. The records are available to you, are they not?

Mr. SWEET. If an application had been made for authority to operate, that would show it.

Senator DIETERICH. Mr. Witness, what I am trying to get at is the fact of the matter. Legally the evidence you are giving is not good. The chairman of the subcommittee asked you whether or not they were an operating railroad company. You answered by saying that somebody testified in some hearing that they were not. There may have been hundreds who testified that they were.

Mr. SWEET. Well, there were not.

Senator DIETERICH. I do not understand why you would want to give an answer of that kind.

Mr. SWEET. Perhaps I should say, Senator, that I have been asked to come here to state what the records show.

Senator DIETERICH. What do you say as to what the records show as to those railroads being an operating company?

Mr. SWEET. I say the records show that it is not operating.

Senator DIETERICH. That is the answer.

Mr. SWEET. And I have given you the reference to the record.

Senator SHIPSTEAD. To be an operating company they would have to own railroad engines, boxcars, trackage, and other property which is customarily used by common carriers. You do not know that the Associated Railways as such owns any physical property or operates any of it, do you?

Mr. SWEET. According to the record we have in that hearing it does not own any property of any kind.

Senator SHIPSTEAD. Do you know whether any of the railroads composing the Associated Railways Co., operate any part of the Minneapolis & St. Louis Railroad?

Mr. SWEET. My understanding is, from the record, that they do not.

Senator DIETERICH. Is it not a matter of common knowledge, and is it not a fact, that the various railroads represented in that group were organized for the purpose of disposing of this railroad, the Minneapolis & St. Louis Railroad; that this is a corporation used for that purpose and organized for that purpose? Is there any question about that?

Mr. SWEET. The application so shows, Senator. I have no reason to question it.

Senator SHIPSTEAD. Have you a copy of that application with you?

Mr. SWEET. Yes.

Senator SHIPSTEAD. Will you explain what it is? Describe it as briefly as you can.

Mr. SWEET. Under the application, as amended October 5, 1935, Associated Railways Co. is seeking a certificate, or certificates, of public convenience and necessity under section 1 (18) of the Interstate Commerce Act, authorizing it to acquire the lines of railroad and other properties now owned and operated by the M. & S. L. and its receivers, to abandon certain portions of the line of railroad so acquired and, upon such acquisition, thereafter to operate certain portions of the lines and to dispose of certain portions thereof and certain other property to the several owner lines (application, p. 1); also for an order under section 5 (4) of the Interstate Commerce Act authorizing and approving the purchase by it of the railways and properties of the M. & St. L. and its receivers (amendments to application, p. 2); also under section 1 (18) of the Interstate Commerce Act to abandon the operation of certain lines of railway operated by the M. & St. L. or its receivers under trackage contracts (amendment to application, pp. 2, 3); also under section 20a of the Interstate Commerce Act to issue 80,000 shares of stock of the par value of $1 each and $7,200,000 of bonds (application, pp. 8–12).

It proposes to sell the stock at par to five of the participating railroads—those are the railroads forming the Associated Railways Co.—and to sell the bonds to the R. F. C. at par. The bonds would be issued in series, each series covering the portion of the railroad to be sold to each participating railroad company, and would be guaranteed by the participating railroad acquiring that portion of the railroad (application, pp. 9–11). The participating railroad companies ask for certificates of public convenience and necessity under section

1 (18) of the Interstate Commerce Act to acquire and operate certain portions of the M. & St. L. Railroad, and also for orders under section 5 (4) of the Interstate Commerce Act approving and authorizing the purchase of those portions; also under section 20a of the Interstate Commerce Act to assume liability, as guarantor, of the principal and interest of the bonds to be issued by Associated Railways Co. (application, pp. 21–39; amendments to application, pp. 5–8).

Senator DIETERICH. From what are you reading?

Mr. SWEET. I am reading from a memorandum which I prepared to answer questions that were submitted, as I understand it, at the request of Senator Shipstead.

Senator DIETERICH. The questions were submitted to you? You knew what questions you were preparing to answer?

Mr. SWEET. Certainly.

Senator SHIPSTEAD. The reason for that, Senator, was to insure accuracy.

Senator DIETERICH. I am wondering why they could not get the original charter of the organization in question. I am wondering why, if it is material at all, it should not be here in legal form? Why should they have a memorandum of it rather than the original charter itself? They refer to the documents, and the witness has made a memorandum from that document. If it is material at all, the document is available. Certified copies thereof could be procured.

Senator SHIPSTEAD. We have a copy of the application itself, and we can have that put in the record.

Senator DIETERICH. Mr. Chairman, may I interrupt again? I am wondering why these hearings are begun. Senators, I am speaking for myself only, but I should like to understand what the nature of the hearing is and what purposes are to be accomplished by the hearing, so we will know how to go about the inquiry intelligently. We probably would find out concerning that matter by pursuing the line of questioning contained in the questionnaire; but we would, however, continue to be in the dark until the matter was finally developed for us. Why could we not have someone tell us definitely what the purpose of the hearing is?

Senator SHIPSTEAD. Have you seen the resolution, Senator, under which we are acting?

Senator DIETERICH. I have read the resolution, and I understand what the resolution says, but the resolution is not clear on the proposition. This matter seems to be a protest against the lending of Government money to a corporation organized presumably for the purpose of acquiring this railroad, the Minneapolis & St. Louis Railroad, at some sale to be had, or some disposition to be made of it. I understand that is the purpose of the protest.

Senator SHIPSTEAD. There have been protests filed.

Senator DIETERICH. As I understand the resolution, the subcommittee is investigating the protests and investigating the question as to whether the Government should go ahead and finance the purchase of this railroad, with the intention of partitioning it among other operating railroads and abandoning some parts of the line.

Senator SHIPSTEAD. Yes.

Senator DIETERICH. Is that the purpose of the resolution?

Senator SHIPSTEAD. I believe it is.

Senator DIETERICH. What I am interested in is to find whether the purpose is a good one or not. It is almost impossible to determine whether that is a good purpose unless we know, or someone has in mind and can tell us, what would be a more practical and a better plan for the Government to follow. I understand, Mr. Witness, that the railroad in question, the Minneapolis & St. Louis Railroad, is in bankruptcy and has been in receivership for a number of years.

Mr. SWEET. It is in receivership but not in bankruptcy.

Senator DIETERICH. It is not in bankruptcy but is in receivership and is, without a question, insolvent? You can answer that question, because everyone in Illinois, in Iowa, and the other States in which the railroad operates knows that that is the condition.

Senator BENSON. That is also true, Mr. Witness, is it not, of some of the railroad companies composing the Associated Railways Co.?

Senator DIETERICH. I am not saying that it is not true with respect to some of those companies. What I desire is to get the facts in the record. It is true that the Minneapolis & St. Louis Railroad is hopelessly insolvent and that it has been put up for sale, but no bidders have bid at that sale. Is that correct?

Mr. SWEET. I understand that is true.

Senator DIETERICH. Yes. That would be a matter of public record in the court. It is now in the hands of the court and is now being operated under the direction of a receiver appointed by the court. That is correct, is it not?

Mr. SWEET. Yes.

Senator DIETERICH. And it is operated in that manner by reason of the fact that there has been a proper petition filed making it necessary to put the railroad into the hands of a receiver to operate it?

Mr. SWEET. It has been in receivership since 1923.

Senator BENSON. Mr. Chairman, I do not see why that has any bearing on the investigation we are now conducting.

Senator DIETERICH. I am very sorry the Senator does not see it that way, but still I hope he will accord me the right to say it.

Senator BENSON. Yes.

Senator DIETERICH. I think it has a bearing on the investigation. I want to see whether there is any better way out for this railroad.

Senator BENSON. We cannot find out whether there is any better way out or not unless we have some investigation of the matter, can we?

Senator DIETERICH. I am not trying to stop an investigation. Please do not get the idea that I am endeavoring to do anything of that sort. I simply desire to get myself put right on the matter before we start any investigation. I want to know where we are getting to. There must be a purpose behind the investigation.

Senator BENSON. The purpose, so far as the resolution is concerned, seems to me to be quite clear.

Senator DIETERICH. It is just to stop this proceeding?

Senator BENSON. That is right.

Senator DIETERICH. Then where do we get to? The court has charge of the Minneapolis & St. Louis Railroad. People have their money tied up in the securities of this railroad, as I understand, to

a considerable amount. Stopping one thing does not help the people who are interested in the railroad financially and who own the railroad.

Senator BENSON. If we do not stop this particular proceeding, those interested in the railroad financially will not have the chance to save their holdings, will they?

Senator DIETERICH. That is what I am trying to find out. What I am interested in knowing is whether they will have any better chance by reason of the fact that we stop this proceeding. How is the railroad going to be operated if we stop the contemplated proceeding? Who is going to finance the operation of the railroad, and how is it going to be operated if we do stop the proceeding in question?

Senator BENSON. The people who own the railroad are financing it now.

Senator DIETERICH. The people who own it are not financing it now. The stockholders and those who own the securities of the railroad manifestly do not have anything to say about it now. The railroad is being operated by a court in an endeavor to get some money to pay the railroad's obligations.

Senator SHIPSTEAD. As I understand the resolution under which we are acting it is for the purpose of getting certain information. I am not sure that the purpose is to stop the proceeding which has already been started before the Reconstruction Finance Corporation and the Interstate Commerce Commission. There are some questions involved here which are of public interest. One is whether we are initiating a policy here of consolidating railroads and dismembering railroads by a Government agency other than under a policy of Congress. Another matter that may come before us here, I understand, is that those who protested have other methods of reorganization to suggest which would be more in the public interest than the one under consideration.

Senator DIETERICH. That is what I am getting at. Is there going to be in this proposition a suggestion of a reorganization which will better accommodate itself to this situation in which we find this railroad? That is what I am trying to find out. There is no use of investigating a proposition and saying, "You must not do this", unless we find a better way of accomplishing what is desired.

Senator SHIPSTEAD. I agree with you.

Senator DIETERICH. Perhaps we can find out that the thing desired can be done in a better manner than the one now proposed.

Senator SHIPSTEAD. I agree.

Senator DIETERICH. It is manifest that it would be better for all the communities through which the Minneapolis & St. Louis Railroad runs and to all its employees and to everyone connected with the railroad if it could continue to operate. There is no question about that. I do not think there is any difference of opinion concerning that matter. But we cannot disregard the rights of those whose money is invested in that railroad.

Senator BENSON. That is just what you are doing if you do not go ahead with this investigation or some other investigation.

Senator DIETERICH. That is the Senator's judgment.

Senator BENSON. That is right.

Senator DIETERICH. The Senator has a right to that judgment.

Senator BENSON. I thank you.

Senator DIETERICH. And I may come to the point of having the same judgment later on, and on the other hand I may differ from the Senator's judgment later on.

Senator BENSON. That is right.

Senator SHIPSTEAD. Let me make one statement. We now have a certain proposition before us, and even though a better one may be offered, we should first find out what the proposition now before us is.

Senator DIETERICH. We cannot possibly pass upon whether the proposition now before us is a good proposition or not until we determine whether there is a better proposition in existence.

Senator BENSON. I disagree with the Senator on that statement.

Senator DIETERICH. The chances are that the Senator from Minnesota and I will disagree on a thousand things. We shall maintain our respect for each other, but still disagree on many things.

Senator BENSON. That is right.

Senator DIETERICH. Our philosophies may be entirely different in a thousand different ways.

Senator SHIPSTEAD. It is not my purpose to continue the argument, but so far as I am concerned I will say that we may find out before we get through that the proposal in question is the best way of disposing of the problem. We may come to the conclusion that this is the best solution, whereas the protestants claim that it is not, and they are here to be heard.

Senator DIETERICH. Pardon me for interrupting the chairman, but I must say that it is rather an unusual thing for a committee to take such action as is now proposed and to make an investigation of the matter, because it is in the hands of the court. It is, as a matter of fact, in the hands of the Government agencies created under the Constitution by the Congress. The matter is now in the hands of the proper Government agencies; it is going through the orderly process of law in the agencies which we have created.

Senator BENSON. It is going through a court which was created by Congress, nevertheless.

Senator DIETERICH. It is going through the ordinary processes for adjusting these matters. It is being handled by the proper Government agencies which the Congress has created.

Senator SHIPSTEAD. Does the Senator from Illinois object to anything which is now being done?

Senator DIETERICH. I do not object to anything. I simply wanted to get myself clear on the matter. I wanted to have the matter coordinated so as to know what we were doing and where we were getting to in what we were doing, because it was getting on my nerves trying to follow the questionnaire and the answers to the questionnaire and endeavoring to understand where we were going to arrive later on. If I were given a copy of the questionnaire and the answers it would save me a great deal of time.

Senator SHIPSTEAD. I thought I had made arrangements for copies of the questionnaire to be handed to all the Senators present, but I find there were not enough copies made to go around. The purpose of Mr. Sweet's testimony is to explain the application to the committee in order that the committee may know what it is. We have a copy of the application here for the record.

Senator DIETERICH. May I recall to Mr. Sweet's mind what the orderly process is with reference to securing a loan on the part of a railroad company? The fact of the matter is that the railroad company makes the application to the agency which makes the loan, which is the Reconstruction Finance Corporation. That is correct, is it not?

Mr. SWEET. That is true.

Senator DIETERICH. But the Reconstruction Finance Corporation, under rules adopted by the Reconstruction Finance Corporation, and I think possibly under the statute in that case, cannot make the loan until it is approved by the Interstate Commerce Commission. That is true, is it not?

Mr. SWEET. That is the statutory provision.

Senator DIETERICH. Yes; that is the statutory provision. Then, the matter of other agencies coming in and assisting, and making appraisals, and such things as that, comes under rules adopted by the Reconstruction Finance Corporation?

Mr. SWEET. The Reconstruction Finance Corporation, of course, makes its own independent investigation of every application of that sort in its own way. The Interstate Commerce Commission makes its own investigation in its own way. I do not know of any other agencies that are concerned in applications for loans from the Reconstruction Finance Corporation.

Senator DIETERICH. But the Reconstruction Finance Corporation will not make a loan unless your agency, the Interstate Commerce Commission, approves the proposition and says that the loan is a proper loan, and a safe loan for the Government to make with its funds?

Mr. SWEET. That is right.

Senator DIETERICH. They are not discriminating as to who the loan is made for. You only pass on whether or not it is a proper loan, and that the security is sufficient properly to secure the loan for the Government?

Mr. SWEET. Essentially that is the question.

Senator DIETERICH. Of course the Interstate Commerce Commission does deal with other matters, so far as that is concerned, but in the matter of loans that is what it is confined to?

Mr. SWEET. That is essentially what the Commission deals with on every application for a Reconstruction Finance Corporation loan.

Senator DIETERICH. And this loan will not be made unless the Interstate Commerce Commission says that it is a proper loan to be made?

Mr. SWEET. It will not and cannot be made.

Senator DIETERICH. It will not and cannot be made. So there are a good many safety checks on even this proposition?

Mr. SWEET. Those are the steps in the procedure that the law requires.

Senator DIETERICH. The proposal under discussion is of common knowledge. The matter has been in the courts a long time. Communications have been addressed to all Members of the Congress, and especially to the Senators from the States more to be affected? So much discussion has been had of the matter that I think it is presumptuous to say that we do not understand the facts of the case which has been presented. We may not have gotten all the facts, or we may not have a full understanding of the situation, but under the scheme of operating the road by the present ownership, if such an arrangement could be made, if such an organization of the present owners of the railroad could be mobilized as would take the road and operate it as a road, there still are some branch lines on that road, or some of the lines other than branch lines whose operation shows that the railroad is not profitable to operate. Is that correct?

Mr. SWEET. The only answer I can make to that question, Senator, is that I think——

Senator DIETERICH. That is the answer with respect to practically every railroad which at one time ramified into all different directions and now has to meet bus and other competition. There are certain lines that they are continually asking be abandoned because the earnings of those lines are not at all sufficient to compensate for their operation.

Mr. SWEET. That is very true in many cases.

Senator DIETERICH. Yes; and that is true with respect to this one, is it not?

Mr. SWEET. I think it is true in some instances at least.

Senator DIETERICH. What I want to get at is whether there is some information to be given to the committee by which it will know what particular lines are sought to be abandoned. Is there in the questionnaire which is being answered by the witness any question dealing with that matter?

Senator SHIPSTEAD. Yes.

Senator DIETERICH. That is contained in the questionnaire, is it?

Mr. SWEET. Yes.

Senator DIETERICH. That is all I wanted to know.

Senator SHIPSTEAD. That is what the witness is here for.

Senator BENSON. The information about which you have asked, Senator, is contained in this map.

Senator SHIPSTEAD. I think it will all be brought out if we can continue the hearing.

Senator DIETERICH. That is all right.

Senator BENSON. Going back to the question which Senator Dieterich asked you regarding the activity of your particular committee or division, it is a fact, is it not, that if your division approves a loan, the Reconstruction Finance Corporation may or may not accept that loan?

Mr. SWEET. Oh, yes. The approval by the Interstate Commerce Commission does not necessarily mean that the Reconstruction Finance Corporation will also approve the loan. There have been a number of instances in which the Reconstruction Finance Corporation has refused to make loans after approval by the Interstate Commerce Commission, and as a matter of fact there were two instances in this case where the Commission approved loans for the receivers that the Reconstruction Finance Corporation declined to approve.

Senator BENSON. Then it is a fact that the Reconstruction Finance Corporation has the final say; it has the veto power, regardless of anything which the Interstate Commerce Commission may do?

Mr. SWEET. That is true.

Senator SHIPSTEAD. Mr. Sweet, did you finish your last answer? You had begun making an answer to the question, and I do not know whether you had finished it or not.

Mr. SWEET. Not quite. I wish to explain that the application also involves authority sought by the Chicago & North Western, the Burlington, the Milwaukee, the trustees of the estate of the Rock Island, and the Illinois Central for an order under section 5 (4) of the Interstate Commerce Act authorizing the acquisition of control by them of Associated Railways Co. through the purchase by each of them of 16,000 shares of that company's capital stock (amendments to application, p. 9).

That is all in a general way that is involved in the applications that we regard as a part of this proceeding.

Senator SHIPSTEAD. You stated that the people who filed this application were the Associated Railways and others. Who were the others?

Mr. SWEET. The others are those railroads that I have mentioned.

Senator SHIPSTEAD. Will you tell us how many miles there are in the Minneapolis & St. Louis Railroad?

Mr. SWEET. Yes. The application shows that the Minneapolis & St. Louis Railroad owns 1,515 miles.

Senator DIETERICH. Main track?

Mr. SWEET. Those are miles of road.

Senator DIETERICH. You might figure in that the switches?

Mr. SWEET. That might include tracks that are not main tracks as well. There are 98.7 miles owned by other companies and operated under trackage rights by the Minneapolis & St. Louis (application, p. 4, amendments to application, p. 2). So the total operated mileage is the sum of those two figures.

Senator SHIPSTEAD. Will you tell us how many miles the Associated Railways propose to purchase, and how many miles under this plan or this application are to be abandoned?

Mr. SWEET. According to the application, Associated proposes to acquire the lines of railroad and other railroad properties now owned and operated by the M. & St. L. (application, p. 1). It therefore proposes to acquire 1,515 miles of railroad (application, p. 4). It proposes to abandon 502.96 miles of track now owned by the M. & St. L. (application, pp. 13, 15; return to abandonment questionnaire, pp. 3–5). It also proposes to abandon operation of all tracks operated under trackage rights except about 16 miles that will be required by the participating railroad companies (application, p. 22, amendments to application, pp. 2, 3).

Senator DIETERICH. Let us get that correct. Do you mean it proposes to abandon 500 miles out of the 1,000 miles?

Mr. SWEET. It will purchase 1,515 miles, and abandon, according to the application, 502.96 miles.

Senator DIETERICH. I do not want to be critical or anything of that kind. I did not, however, get the phraseology which you used. You say they propose to purchase 1,000 miles?

Mr. SWEET. No, Senator. They propose to purchase 1,515 miles.

Senator DIETERICH. I misunderstood you. And then they propose to abandon 500 miles of that?

Mr. SWEET. That is right. Leaving about a thousand miles. One thousand and fifteen miles.

Senator DIETERICH. Have you a record showing what particular trackage it is that is proposed to be abandoned?

Mr. SWEET. Yes. I will explain that.

Senator DIETERICH. And how much of it constitutes switch tracks and side tracks and such as that, and how much of it constitutes main tracks?

Mr. SWEET. I have not prepared my answers quite in that detail.

Senator DIETERICH. Do you think it is necessary if we are going to pass judgment on something so important as this, that we have that detail?

Mr. SWEET. If you wish that information, Senator, I shall endeavor to get it for you.

Senator SHIPSTEAD. Will you give us the information you have as to the lines to be purchased or to be continued, and lines to be abandoned in the various States affected? They are the States of South Dakota, Minnesota, Iowa, and Illinois?

Mr. SWEET. Yes. In South Dakota, about 261 miles would be purchased, 91 miles would be retained, and 170 miles abandoned. In Minnesota, about 363 miles would be purchased, about 298 miles would be retained, and about 65 miles would be abandoned. In Iowa, about 800 miles would be purchased, about 532 miles would be retained, and about 268 miles would be abandoned. In Illinois, about 88 miles would be purchased, all of which would be retained in operation. There would be no abandonments in Illinois, according to the plan.

Senator DIETERICH. Those abandonments are the abandonments which are to take place under this new corporation which is going to be organized, or which has been organized, and is going to dismember the road among the various other railroads. Some of those abandonments will be on account of parallel trackage and for such reasons as that, will they not? Before that question is answered let me ask you whether you have anything to show what the cause is for these abandonments? Whether the abandonments are to be made by reason of the fact that there is a duplication of existing transportation facilities, or whether the abandonments will be made on account of the fact that the facility, although it may not be a duplication of any other transportation facility, is not a paying investment?

Mr. SWEET. I cannot discuss in detail for you, Senator, the reasons for abandonment of the different portions which are proposed to be abandoned.

Senator DIETERICH. Do you not think it is necessary for us to have an understanding of that matter? The mere matter of saying that there shall be an abandonment does not spell much for the committee unless it knows what the real cause of the abandonment is which is about to take place, and as to whether or not it is a sound Government policy to be followed, especially when the Senate committee wants to take the place of your agency, the Interstate Commerce Commission, and the Reconstruction Finance Corporation in passing on the question. Do you not think the committee should have that information if the committee is going to pass judgment on that question?

Mr. SWEET. The Commission will have to have that information before it could reach a judgment on the application before it.

Senator DIETERICH. Naturally, if you were sitting here you would want that, would you not, if you were going to pass judgment upon the question under consideration, and overrule something that another Government agency was doing? In such case you naturally would want that information, would you not?

Mr. SWEET. It would seem to me to be very important.

Senator DIETERICH. Yes.

Mr. SWEET. I should say in that connection that in the hearings which have been held on this application so far there has been no evidence with regard to the proposal for abandonment of any particular line. The hearing has not gone that far as yet. So the record on abandonments has not been made.

Senator SHIPSTEAD. Are you familiar with the map on page 46 of the application?

Mr. SWEET. Yes.

Senator SHIPSTEAD. As I understand, by that map it is intended to show the lines of the M. & St. L. Railroad; the lines which are to be continued and the lines which are to be abandoned, and the various railroads which will take over the branches which are to be operated. Is that correct?

Mr. SWEET. This map purports to show, as I understand it, the lines which are to be abandoned, according to the plan, and those are the broken lines. It also shows the lines to be retained.

Senator SHIPSTEAD. I asked you about the map filed in the application. Is that the map you have before you?

Mr. SWEET. Yes; the map I have referred to is the map opposite page 46 of the application. It is a plain, uncolored map.

Senator SHIPSTEAD. Yes.

Senator DIETERICH. Who made the nice pencil figuring on the map? It may be very essential to know who made that figuring on the map. Sometimes the draftsman might draw pictures or might make figures which are mistaken.

Senator BENSON. That might become the most important part of the hearing.

Senator DIETERICH. Who made the coloring and who drew those pencil lines?

Senator BENSON. I do not know.

Senator DIETERICH. I want to know, because if that coloring is to be an important matter for consideration we ought to know who did that work.

Senator BENSON. Yes. We might appoint a committee to find out who colored the map.

Senator SHIPSTEAD. That is the map which is contained in the application which is before the Interstate Commerce Commission.

Senator DIETERICH. Why do we not get more court records before us for our consideration?

Senator BENSON. It seems to me that if we could go ahead with the hearing we might get some court records, if that is what the Senator wants.

Senator SHIPSTEAD. If there are no further questions at the moment, let me ask you this question, Mr. Sweet. What are the lines to be continued and what are the lines to be abandoned? I do not believe you had finished your answer to that question. You started

to tell us what lines were to be continued and what lines were to be abandoned, and the various roads that are taking over the lines that are to be continued in operation.

Mr. SWEET. The map to which you have referred does not show which railroads will take over parts, but there is in the record an indication as to what is proposed in that regard.

Senator SHIPSTEAD. Can you state that from the record?

Mr. SWEET. Yes; 429 miles are to be sold to the Milwaukee Railroad. That is shown by page 6 of the application in this case.

Senator BENSON. Is the Milwaukee Railroad under receivership, do you know?

Mr. SWEET. It is in bankruptcy proceedings.

Senator BENSON. It is in bankruptcy?

Mr. SWEET. Yes. The Chicago & North Western Railway is to take over 124 miles, according to the application. It will also acquire 16 miles of trackage rights over the Rock Island, which are now exercised by the Minneapolis & St. Louis Railroad.

According to the application the Rock Island will acquire 92 miles.

Senator SHIPSTEAD. How many miles for the Rock Island?

Mr. SWEET. Ninety-two miles for the Rock Island. The Burlington will acquire 197 miles, and I see that the description of these mileages appears in the application here at page 6.

The Illinois Central Railroad will acquire no mileage.

Ninety-nine miles will be jointly purchased by the Illinois Central Railroad and the Chicago & North Western Railroad. The 99 miles extends from Hopkins to Albert Lea, Minn. Albert Lea is some distance south of Minneapolis and Hopkins is just south of Minneapolis.

I should add that the Rock Island and the Chicago & North Western Railroads will acquire jointly 21 miles of track between Northwood, Iowa, and Mason City, Iowa, and that the Great Northern will acquire 47 miles of track between Marietta and Hanley Falls, Minn. (Prices to be paid are shown on p. 9 of the application, and the lines to be abandoned are shown on pp. 13 to 15, inclusive, of the application.) Further information as to the lines to be acquired will be found on pages 7 to 11, inclusive, of the return to the acquisition questionnaire. Additional information as to the lines to be abandoned will be found on pages 3 to 5 of the return to the applicant's abandonment questionnaire on file in this proceeding before the Interstate Commerce Commission.

Senator SHIPSTEAD. Can you give us the number of terminals that are operated by the Minneapolis & St. Louis Railroad, and how are the terminals at Oskaloosa, Marshalltown, Albert Lea, and Minneapolis to be operated, and by what companies?

Mr. SWEET. There are terminals at Oskaloosa, Marshalltown, Albert Lea, and Minneapolis, and the application, page 7, states [reading]:

> Said terminals at Minneapolis will be operated by Associated and the respective companies named in paragraph (e), each operating company having equal and common rights of user. If title to said Minneapolis terminal properties is retained by Associated, Associated will execute and deliver appropriate user contract or contracts either in the form of a lease or of trackage rights to such proprietary companies.

Senator DIETERICH. From what are you now reading?

Mr. STREET. I am referring to the terminals at Minneapolis.

Senator DIETERICH. I mean what is the document from which you are getting the information?

Mr. SWEET. I have been referring to the application, which is the application in Docket No. 10974.

Senator DIETERICH. It has not been passed on, has it?

Mr. SWEET. I think it has not been introduced here.

Senator DIETERICH. It has not been passed on, has it?

Mr. SWEET. Oh, no. It is under consideration.

Senator DIETERICH. And it may be amended and may be changed altogether before it is finally passed on?

Mr. SWEET. Oh, yes.

Senator DIETERICH. That is just a proposal made by somebody?

Mr. SWEET. When I say that that would be done, I am quoting from the application.

Senator DIETERICH. That is what I am getting at. Your language would indicate that that would be done, as though it were an assured fact. This is only a proposal that is made which may not get to first base.

Mr. SWEET. That is right.

Senator SHIPSTEAD. The only objection to this proposal, according to the record, would come from the Interstate Commerce Commission. I understand that the Reconstruction Finance Corporation has already stated that if the Interstate Commerce Commission recommends this proposal that they will grant the loan.

Mr. SWEET. I am not advised as to that, Senator.

Senator DIETERICH. I was going to say that what the chairman is saying is very pertinent, and I am rather interested in knowing whether or not a commitment of that kind can be gotten out of an agency of this Government, and what form the commitment was in; whether it is common gossip or whether it is some written letter or some document. Is there such a thing, to your knowledge, as that the Reconstruction Finance Corporation has committed itself to make this loan in case it clears the Interstate Commerce Commission?

Mr. SWEET. I have no information as to that, and I should think it is very doubtful.

Senator DIETERICH. Inasmuch as the chairman has injected that into the hearing, what is the information on that particular matter? Where is the document? It might be some of the help going around talking about it that did not know anything about it, or that misunderstood the conversation that was had about it. I do not understand that they are committing themselves at all on anything until the thing is finally up to them for commitment.

Senator SHIPSTEAD. That is my understanding, and I understand that evidence will be presented to that effect.

Senator DIETERICH. With all respect to the chairman of the subcommittee I must say that your understanding should be based upon evidence which justified the understanding.

Senator SHIPSTEAD. Here is a press release of the Reconstruction Finance Corporation dealing with this problem. It is given out officially to the press, being dated February 27, 1935. It is headed [reading]:

Statement by Jesse H. Jones, Chairman, Reconstruction Finance Corporation.

It states [continues reading]:

With reference to the Minneapolis & St. Louis Railroad which it was suggested some months ago might, in the interest of all concerned and affected, be absorbed by the other and larger systems serving the same territory, a conference was held in my office Tuesday, February 26, with officials and representatives of the Burlington, the North Western, the Rock Island, Illinois Central, Great Northern, Great Western, Wabash, and Milwaukee Railroads.

The roads agreed, subject to the approval of the Interstate Commerce Commission of the entire plan and of the purposes of the plan, that they would be willing to bid $7,200,000 for the Minneapolis & St. Louis, taking its equipment subject to outstanding equipment-trust notes of $1,018,000 in addition.

It will be remembered that the Minneapolis & St. Louis has been in Federal receivership continuously since 1923 and its operation during this entire period—which on the average, is probably as good as the railroads are likely to have—indicates quite clearly its inability to operate successfully as an independent system.

And while if the property is sold at this price or at approximately this price, the bondholders will get only a small percentage of the face of their bonds, depending to some extent upon the terms of settlement that may be reached with creditors whose rights are not foreclosed by the decree, it appears that if the road continues in receivership or is reorganized by the issuance of new securities, its chances of staying out of trouble in the future are poor; likewise the prospects of the security holders.

The Wabash has no direct interest, but its service to the Twin Cities would be affected, and satisfactory arrangements are included to protect this service.

The other seven roads that agree to participate in the purchase of the Minneapolis & St. Louis, if the plan is approved, could use the extra mileage in such a way as to provide the territory occupied with as good, if not better service than can possibly be furnished by an impoverished road. The plan also gives the Illinois Central direct entrance to Minneapolis over its own rails.

Representatives of the interested roads have given a great deal of time and consideration to the suggested plan, and based upon the history and earnings of the Minneapolis & St. Louis, the price which they are willing to undertake to pay seems fair, and in all probability more than the creditors and security holders would get under a reorganization or a continuation of the receivership.

In addition to the indicated offer of something more than $8,000,000, the purchasing roads estimate that it will be necessary for them to spend not less than $3,000,000 to improve and rehabilitate the property. They will be required to furnish these additional funds.

Most communities served by the Minneapolis & St. Louis are also served by other railroads. To protect any that are not, and to minimize public inconvenience, the plan contemplates furnishing highway transportation service to communities of any substantial size which would be deprived of railroad service. The purchasing roads, as far as possible, will agree to absorb and protect displaced employees.

As far as our directors are able to see, the plan seems an equitable solution of an unhealthy railroad situation in the particular territory, and if approved by the Interstate Commerce Commission, the Federal court, and any other authority having jurisdiction over any part of the property, the Reconstruction Finance Corporation is willing to lend the $7,200,000 to the purchasing roads, upon the security of the property purchased.

Senator DIETERICH. Was that statement issued before or after the application in question was filed?

Senator SHIPSTEAD. That statement is dated February 27, 1935. When was the application filed?

Mr. SWEET. September 1935.

Senator DIETERICH. Well, that was some months before the application was filed and dealt in general propositions. That is not any proof of what the chairman said, that the Reconstruction Finance

Corporation would approve this proposition here if the Interstate Commerce Commission did. That press release at that time resulted from the conference with railroads officials at a time when the road in question was being put up and no bidders for it were obtained. The chairman's comment and the witness' comments on that are not connected whatever with any admission that the Reconstruction Finance Corporation would make its commitments on this loan under this application.

Senator SHIPSTEAD. I do not want to argue with the Senator. I am satisfied in my own mind that that constitutes a commitment.

Senator DIETERICH. I understand. I want to get the record clear. I do not want the matter misconstrued.

Senator SHIPSTEAD. The Senator raised the question.

Senator DIETERICH. You were giving the proof, and the proof, according to my judgment, was not there. I said "according to my judgment." My judgment on that subject may not be very good.

Senator SHIPSTEAD. I think if we can continue with these hearings possibly we can get a little more information upon the subject.

Mr. Witness, you were explaining here the various lines that would be taken over by the various railroads. Did you complete your answer with respect to that?

Mr. SWEET. No.

Senator SHIPSTEAD. Will you continue?

Mr. SWEET. I was explaining what is proposed in the application with reference to the disposition of the Minneapolis & St. Louis Railroad terminals.

Senator DIETERICH. Pardon another interruption, and I shall not interrupt very much more. Here is an application which is pending, not having been acted upon by any agency of the Government. It is simply a proposal to do something. The applicant himself may withdraw the application before it is acted upon, and the Government agency itself may not act favorably upon it. Is it not rather a waste of valuable time, Senators, to go into the question to find out what the possibilities might be in case the application were prosecuted to its final conclusion and accepted by the agencies of Government? Are we not using a great deal of valuable time on something which might not occur at all?

Senator SHIPSTEAD. Senator, that may be so. We are a subcommittee instructed by the Senate Interstate Commerce Committee to conduct a hearing into this matter, and under that instruction of the committee I do not see how we can do anything but continue the hearing. The Committee on Interstate Commerce of the Senate has the authority to instruct that such a hearing be had.

Senator DIETERICH. I have no objection. I am not going to stop it. I am simply submitting for the record the question whether or not it is a rather speculative proposition. Before this hearing shall have been completed another application may be filed. There is no law prohibiting those who have filed this application from withdrawing the application. There is not even any evidence before us that there is any disposition to give serious consideration to the application by a Government agency, except that press release.

Senator BENSON. There is not any evidence here that this subcommittee was formally appointed either, but if it were necessary to have evidence on that subject we could introduce it.

Senator DIETERICH. In order that my position may be understood, I will say that I do not believe in charging any Government agency with bad faith or not doing that which is the proper thing to do until there is some evidence that the agency is doing something that manifestly presents itself to the minds of Senators as being wrong. We are going on the theory that the Reconstruction Finance Corporation is cooperating with a certain petition being filed, and is a party to it, when I say that there is no evidence of that kind, and it is not proper to charge a Government agency with that, and there are still chances to be heard before the Government agency if that is wrong.

Senator SHIPSTEAD. There is no one charging anybody with bad faith here. When I said that it was my understanding that the Reconstruction Finance Corporation had already made a commitment I did not intend to impute any bad faith. The Senator made that point. He said he did not see how they could do it under the law. Perhaps they cannot. Perhaps they have not. My information is that they have, whether it is contrary to law or not. I wish to assure the subcommittee and everyone present that it was not my intention to impute bad faith to anyone, and I did not raise the issue of bad faith.

Senator DIETERICH. Pardon me. The Senator is magnifying my remarks.

Senator SHIPSTEAD. I did not intend to do that.

Senator DIETERICH. What the chairman of the subcommittee has seemingly worked himself up into does not flow from what I said at all. I might have used the words "bad faith", but I did not say that the chairman was charging anyone with bad faith at all. I said there was no use for us to conduct a proceeding that might possibly intimate that we were afraid that somebody might act in bad faith, especially where the witness, who seems to know all about this, and who is connected with the Interstate Commerce Commission, is sitting here, and the question has not yet been passed upon by the Interstate Commerce Commission.

Senator SHIPSTEAD. I am aware of that fact.

Senator DIETERICH. Yes; it has not even passed them yet, and it cannot get to the Reconstruction Finance Corporation until it gets by the Interstate Commerce Commission. If the chairman will pardon me, I will say that I think our purposes are all the same. I think we understand the proposition. I think we all have in mind trying to arrive at the best solution of this problem consistent with the interests of those who have invested their money in the railroad, consistent with the interests of those who are employed by the railroad and who have followed that employment through the years until now they cannot turn to something else for employment. I think that is a very serious proposition, and that is why it has been brought here, and that is what the discussion is about, and there is no use of making any public plays about it at all. I think every Senator wants to see that question solved correctly. No matter what the solution may be, all Senators want the question solved in whatever way it can be solved so that those interests to which I referred can be taken care of properly. That is the way it should be solved. But with reference to the proposition of saying that this plan will

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not solve the question or that the other plan will not solve it—they can change this application and put in something for their protection.

Senator SHIPSTEAD. Perhaps they will before we get through with it.

Senator DIETERICH. Yes.

Senator SHIPSTEAD. All the Senators present are not so well informed as is the Senator from Illinois. We are trying to get some information which the Senator already has, and which we do not have. If we can continue the hearings, we hope to get the information desired. The Senator has given us some information, and I do not say that he shall not ask all the questions he wishes to ask or make any statement he may wish to make, and it certainly is not my intention to stop him from doing so. However, I cannot help feeling it is my duty to call to the attention of the subcommittee and to the witnesses, that we are here to get information from whatever sources we can get information. There is no one who says that the proposition in question is wrong. We are wondering if there is a better way than that proposed. There are people who wish to testify that there is a better way.

Senator DIETERICH. I wish the chairman to understand that I do not mean any disrespect to him in anything I say. I am not trying to do anything except to assist him in getting whatever information we can get. I do not wish the chairman, for whom I have the most profound respect for his sincerity and honesty with respect to everything he does, to think that I am trying to obstruct anything he wishes to investigate. And again I may say that in all these matters I may be in error. Sometimes, you know, an individual is the last one to see his own errors.

Senator SHIPSTEAD. May I recall to the Senator that he did state in the beginning that if there was a better way he wanted to know it?

Senator DIETERICH. There is no question about that, and if there is a better way I want it to be known so we can present it to those agencies who will eventually have to decide what shall be done. We cannot take the operation of railroads out of the hands of those agencies which we have set up to do this work, and to whom we have committed it. I am not altogether in sympathy with some of those agencies, but we cannot take such a problem as this out of their hands. However, we can perhaps assist them in determining some way which will better solve this proposition.

Senator SHIPSTEAD. That is what we are trying to find out. Under the general rule, I still think it is conceded in theory, if not always in practice, that it is within the province of Congress to determine the public policies affecting the railroads and the Interstate Commerce Commission and other agencies of the Government.

Senator BENSON. Mr. Sweet, is it not quite possible that this committee or some committee of Congress could bring out in a hearing conducted by such committee matters that could not be brought out by hearings of the Interstate Commerce Commission, or would not be proper there? That matters could be brought out by the committee which would be of some value in making a decision with respect to a loan, or determining whether or not a loan of this kind should be made?

Mr. SWEET. That is possible, Senator, but I think it highly improbable.

Senator BENSON. You think it is highly improbable?

Mr. SWEET. So far as I know, the Interstate Commerce Commission has all the authority it needs to get all the information it requires in order to dispose of the applications that are now pending before it.

Senator BENSON. Let me ask you this question, then: Would it be proper and would it be probable that your Commission would determine whether or not the Reconstruction Finance Corporation had made arrangements with the Associated Railways Co. or other railroads prior to any time you had given it consideration, to make a loan to them of the sum of $7,000,000 or $8,000,000 or $100,000,000?

Mr. SWEET. The press release which the Senator read is already in our record.

Senator BENSON. I know that; but other than that?

Mr. SWEET. The Commission would conduct no sort of an inquisition involving the Reconstruction Finance Corporation.

Senator BENSON. That would not necessarily be an inquisition, would it?

Mr. SWEET. Or any sort of an inquiry, although I understand in this proceeding that the protestants are intending to develop as fully as possible that very question of the extent to which the Reconstruction Finance Corporation may possibly be committed or interested or involved.

Senator BENSON. There is not anything improper about that, is there?

Mr. SWEET. Nothing at all. That is being done in the proceeding before the Commission now.

Senator DIETERICH. Do you mean that investigation is being made before your Commission now?

Mr. SWEET. The protestants have under cross-examination, as I understand it, all the witnesses that have been presented and have already gone into that.

Senator DIETERICH. What you wanted to say was that you did not think it was good policy for one agency of the Government to hold inquisitions over another when there was not anything of that kind specified in the statute as being their duty?

Mr. SWEET. It was not a part of our business to investigate any other agency of the Government, as far as I know it.

Senator SHIPSTEAD. Have you anything more, Mr. Sweet?

Mr. SWEET. I was referring to the disposition of the M. & St. L. terminals.

If title to said Minneapolis terminal is retained by Associated, Associated will execute and deliver appropriate user contract or contracts, either in the form of a lease or of trackage rights to said companies, respectively; or if Associated conveys said Minneapolis terminal properties to them as tenants in common, said companies will execute and deliver an appropriate user contract or contracts, either in the form of lease or of trackage rights, to Associated.

In that statement, I have quoted from the application.

In the return to the acquisition questionnaire at page 15, it is said—now I am quoting:

> The Minneapolis terminals will be covered by an operating agreement to which all the occupants, except the Great Northern, will be parties, each operating company having equal and common rights of user.

The Oskaloosa terminals would be operated by the Milwaukee and the Burlington and the Great Western or the Milwaukee will be parties, with equal and common rights of user.

The Great Western is no longer a party to the application. Neither the application nor the questionnaire contains any statement as to the operation of the terminals at Marshalltown and Albert Lea. The terminals at Marshalltown would be acquired by the Milwaukee, and those at Albert Lea by the North Western and the Illinois Central.

Senator SHIPSTEAD. Does the M. & St. L., or its terminals, operate continuous freight lines between Minneapolis and Watertown and Aberdeen, S. Dak., and other stations in that State?

Mr. SWEET. I am informed that it does.

Senator SHIPSTEAD. And does it maintain continuous freight and passenger service between Minneapolis and Peoria, Ill.?

Mr. SWEET. The indications are that it does.

Senator SHIPSTEAD. And to Des Moines, Iowa, also?

Mr. SWEET. Yes; I should say so. But continuous service does not necessarily mean daily service, or anything like that.

Senator SHIPSTEAD. No.

Mr. SWEET. But there are facilities there for daily service, and our information is that such services are being performed.

Senator SHIPSTEAD. Is there daily service from Minneapolis via Winthrop to Des Moines?

Mr. SWEET. I could not say as to that.

Senator SHIPSTEAD. This plan, if adopted, will break up the road entirely; there will be no main line, and no M. & St. L. Railroad, as such.

Mr. SWEET. The breaking up of the M. & St. L. and the distributions of parts of it to other carriers will necessarily result in joint-line services, instead of a single service of the M. & St. L.

Senator SHIPSTEAD. And it will be owned and operated by five companies, instead of one?

Mr. SWEET. Yes, sir.

Senator SHIPSTEAD. The railroad terminal in Minneapolis, is that owned by the M. & St. L.?

Mr. SWEET. Yes; it has terminal properties there.

Senator SHIPSTEAD. It is a subsidiary to the M. & St. L., is it? The stock in it is owned by the M. & St. L., or is it a subsidiary or an integral part of the road?

Mr. SWEET. I understand that the M. & St. L. has properties there, and also a subsidiary.

Senator SHIPSTEAD. Can you tell us what the value of that property is, as fixed by the Interstate Commerce Commission?

Mr. SWEET. You are referring to the Railway Transfer Co., in Minneapolis?

Senator SHIPSTEAD. Yes.

Mr. SWEET. That is a private switching railroad, the capital stock of which is owned by the Minneapolis & St. Louis railroad. The value that the Commission placed on it—I may state it this way: On the date of the Commission's valuation——

Senator SHIPSTEAD (interposing). What date was that?

Mr. SWEET. That was June 30, 1917. The Railway Transfer Co. operated under lease 11.8 miles of yard tracks and sidings owned by the Minneapolis & St. Louis. It now operates 11.9 miles. This property was valued by the Commission as of June 30, 1917, at $922,000.

Senator SHIPSTEAD. Over $900,000?

Mr. SWEET. $922,000.

Senator SHIPSTEAD. Has that subsidiary, or the railroad company itself, the parent company, any interest in the Minnesota Transfer?

Mr. SWEET. The Minnesota Transfer Railway is equally owned, by ownership of stock, by nine companies, including the Minneapolis & St. Louis, which owns one-ninth of the Minnesota Transfer; the remainder of the stock is owned by the Milwaukee, the Northern Pacific, the Chicago, St. Paul, Minneapolis & Omaha, the Burlington, the Chicago Great Western, the Rock Island, the Soo Line, and the Great Northern.

Senator SHIPSTEAD. What would be the value of the interest owned by the M. & St. L.? Has the Commission fixed that value?

Mr. SWEET. The value of the Minnesota Transfer was fixed by the Commission, as of June 30, 1919, for rate-making purposes, at $4,279,000. The Commission did not assign any specific sum, or specific value to the M. & St. L. representing the transfer company's property, but its interest is one-ninth.

Senator SHIPSTEAD. One-ninth?

Mr. SWEET. Yes, sir.

Senator SHIPSTEAD. They own equal shares?

Mr. SWEET. Yes, sir.

Senator DIETERICH. May I interrupt to ask the difference in valuation for rate-making purposes and taxing purposes?

Mr. SWEET. You ask me if there is a difference?

Senator DIETERICH. Yes. You said "for rate-making purposes." Is there a difference between the value fixed for rate-making purposes and the value you would adopt for loans and such matters as that?

Mr. SWEET. I state it to be the value for rate-making purposes, because that is the way the Commission stated the final figure which I was reporting to you.

Senator DIETERICH. I understand; but what I was trying to get at was this: Would you fix a value for rate-making purposes that would be different from the value fixed for loan purposes if you were passing ordinarily on an application made to the Reconstruction Finance Corporation? In other words, would the rate-making value be the same value that you would fix for the loan purposes?

Mr. SWEET. The Commission has made no valuation for loan purposes.

Senator DIETERICH. Would you answer the question "yes" or "no"? Is it susceptible of such an answer?

Mr. SWEET. I think it is not, Senator.

Senator DIETERICH. You think it is not?

Mr. SWEET. No. I say, the Commission has not fixed a value for loan purposes. The Commission has, in a great many loan cases, done this: It has taken its value for rate-making purposes on one of the earlier dates, like 1913 or 1919, and then said that the company has invested so much in the property since that date, and that the sum of the rate-making——

Senator DIETERICH (interposing). Mr. Witness, for my own information that I may act intelligently: Your valuation for rate-making purposes is not actual value, is not the fair cash market value, is it?

Mr. SWEET. Well, I should say it is the rate-making value.

Senator DIETERICH. I am trying to have you tell me, if you can, why you use the term "rate-making value." That must be a value different from other values. Now, if you can tell me that, I would be very much pleased to have you do it; if you do not want to tell me, and cannot tell me, and will indicate as much, I will not bother you further.

Mr. SWEET. I want you to understand, Senator, the reason why I used the term is that that is the term the Commission used.

Senator DIETERICH. I do not profess to know whether there is a difference between that term "for rate-making purposes" and the value for other purposes. How do you arrive at the value for rate-making purposes?

Mr. SWEET. Does the Senator wish a discussion of that question?

Senator DIETERICH. Well, I want to satisfy myself, when you talk about putting a value here, that the value will be something that is going to enter into a determination of this matter. And when you qualify a value this committee certainly then has the right to go into it and know why you put that qualification on value.

Mr. SWEET. I put it there only because the Commission used that term.

Senator DIETERICH. All right, then. If you do not know that there is a difference between actual market value and a value for rate-making purposes, then I ask you to tell me what are the things that you consider in fixing the value for rate-making purposes of railroad property.

Mr. SWEET. I was in the work of valuation for 8 years with the Commission, and I could talk quite a long time on that particular question.

Senator DIETERICH. Mr. Witness, if you want to discuss the matter, and if you want to tell me, you can avoid the question and talk a long time on something about which I have asked you a simple question as to what you consider, and do not care to answer the question, or if you just want to talk a long time, that is all right, and I will withdraw the question, and consider that your other testimony is along the same line. If you want to give me—and I am just speaking for myself—if you want to show that qualification and answer it that way, I will judge it that way.

Senator BENSON. Mr. Chairman, I think it is quite generally understood there are values for the purpose of rate-making, and other values.

Senator DIETERICH. Now, the Senator evidently seems to understand—and he is not an expert on the subject—he evidently understands that there are two values. You evidently do not understand it.

Mr. SWEET. I have not said I do not understand it.

Senator DIETERICH. You tell me now you do understand it? I asked you the simple question whether you knew——

Mr. SWEET (interposing). I do.

Senator DIETERICH (continuing). And whether you can tell me what entered into the question of making up a value for rate-making purposes.

Mr. SWEET. Yes, sir.

Senator DIETERICH. Well, will you tell us?

Mr. SWEET. Yes; if you wish to hear it.

Senator DIETERICH. Yes.

Mr. SWEET. The Interstate Commerce Commission made a valuation of the property of all common carriers subject to the act, pursuant to the Valuation Act passed in 1913. The Valuation Act described, in considerable detail, how the Commission should proceed, and the Commission did proceed in accordance with that act as it understood it. It required, in the first instance, the making of an inventory of all railroad properties in the United States. The Commission did that, covering some two-hundred-and-fifty-thousand-odd miles of road. The property was all listed. And after we did that, general prices were applied by the Commission's engineers to the different units of property, and in that way estimates of the cost of reproducing all of the physical property, the structural property of the railroads, were made. That was known as the estimate of the cost of reproduction new. That was required to be found and reported by the act. The engineers of the Commission, in making the inventories, also examined the condition of the properties and made an estimate of the percentage its condition was of new. Applying that percentage condition for the different units of reproduction cost new estimates, they arived at the estimates of the cost of reproduction, less depreciation. That figure was also reported for each railroad, as required by the Valuation Act.

In addition to that the Commission examined, inventoried, measured, and priced every piece of land owned by the railroads, embraced its conclusions as to the value of those lands in reports which were finally embodied in the Commission's final conclusions for rate-making purposes.

In addition to that, the Interstate Commerce Commission made an examination of the records and accounts of the carriers with a view to ascertaining, as nearly as they could, the original cost of the property, and the money invested in the property. Now, all of those estimates were found and all of them were considered by the Commission in reaching a decision on what it called its valuation for rate-making purposes.

Now, other elements——

Senator DIETERICH [interposing]. Now, that was the same process that was used for this part of the railroad that you are talking about?

Mr. SWEET. Yes; in reaching the figure that I gave you.

Senator DIETERICH. You marked up the cost of reproduction.

Senator SHIPSTEAD. Reproduction new.

Senator DIETERICH. Reproduction new; and then you figured up what the investment was.

Mr. SWEET. That is right.

Senator DIETERICH. And then as to other properties you tried to fix the value.

Mr. SWEET. Yes; the lands.

Senator DIETERICH. Yes; the lands?

Mr. SWEET. Yes, sir.

Senator DIETERICH. And what did you say the Commission determined the price of this branch was, that you have just testified about?

Mr. SWEET. The figure I gave you was the valuation of the property used by the Railway Transfer Co. in Minneapolis. It was $922,000. And then I gave you also the value of the Minnesota Transfer, arrived at in that way, which was $4,279,000.

Senator DIETERICH. In figuring the value of the terminal property in Minneapolis, there was a great element of value of real estate entered into that, was there not?

Mr. SWEET. Yes, sir.

Senator DIETERICH. That was, perhaps, the greatest element that entered into it?

Mr. SWEET. I should think you are right about that.

Senator DIETERICH. That is, to a great extent, a matter of opinion; the market value of real estate is altogether a matter of opinion?

Mr. SWEET. Very largely; yes, sir.

Senator DIETERICH. It is very difficult to determine what the value of real estate is for any particular purpose, unless there is no other real estate within a reasonable distance available for that purpose.

Mr. SWEET. The value of the real estate was determined, as I understand it——

Senator DIETERICH [interposing]. The matter of the actual equipment on that property there was insignificant compared with the value of the real estate and the easement rights thereon.

Mr. SWEET. Well, I do not know just what you mean by "insignificant." Of course, there are a great many tracks, and structures, and things of that sort.

Senator DIETERICH. Have you got the divisional process that you went through; that is, how much you placed on the equipment, and so forth? Have you got that there?

Mr. SWEET. No; I haven't got it here.

Senator DIETERICH. That was gone into?

Mr. SWEET. Yes, sir.

Senator DIETERICH. The Commission has that, does it not?

Mr. SWEET. Yes, sir.

Senator DIETERICH. Will you produce that, please?

Mr. SWEET. I will endeavor to get it, Senator; we will endeavor to get you any detail we can.

Senator DIETERICH. Is it where you have the authority to get it and bring it here?

Mr. SWEET. I will endeavor to get the authority.

Senator SHIPSTEAD. Would it be quite voluminous?

Mr. SWEET. Yes; quite voluminous.

Senator DIETERICH. Well, if I can get the totals, and leave the columns of computation out, that will satisfy me, because I do not think any member of the committee wants to go into the details, unless it be Senator Murphy, of Iowa.

Senator SHIPSTEAD. How voluminous would those records be? Would you be required to haul it down on a truck?

Mr. SWEET. No.

Senator DIETERICH. Mr. Witness, you understand what I want, do you not? I want your method of fixing the values of the Minneapolis terminals. I would like it in the totals, the value of the real estate and other items.

Now, if the chairman thinks it is going to be necessary to build a railroad from here to your department and on that railroad have extra equipment to get it down here, I do not want to go to that expense. I want these fellows held down a little bit.

Mr. SWEET. I can get for you the total values assigned to lands owned by the Minnesota Transfer Co.

Senator DIETERICH. Yes.

Mr. SWEET. And the total values assigned to tracks and structures.

Senator DIETERICH. That is what you understood I wanted, did you not? That would satisfy me very well.

Mr. SWEET. And those figures are two figures I can bring very easily.

Senator SHIPSTEAD. That is very fine.

We will have to adjourn now for a session of the Senate, and we will stand adjourned until 10 o'clock tomorrow morning. Would it be possible for you to have that information then?

Mr. SWEET. Yes, sir.

Senator SHIPSTEAD. Very well.

(Whereupon, at 12:05 p. m., an adjournment was taken until the following day, Thursday, May 14, 1936, at 10 a. m.)

PROPOSED SALE OF MINNEAPOLIS & ST. LOUIS RAILROAD

THURSDAY, MAY 14, 1936

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE
ON INTERSTATE COMMERCE,
Washington, D. C.

The subcommittee met at 10 o'clock a. m. in the caucus room, Senate Office Building, pursuant to adjournment on yesterday, Senator Henrik Shipstead (chairman of the subcommittee) presiding.

Present: Senators Shipstead (chairman of the subcommittee), Dieterich, Truman, and Benson.

Senator SHIPSTEAD. The subcommittee will come to order Mr. Sweet, will you resume the stand?

TESTIMONY OF OLIVER E. SWEET, DIRECTOR, BUREAU OF FINANCE, INTERSTATE COMMERCE COMMISSION, WASHINGTON—Resumed

Senator SHIPSTEAD. Yesterday when we concluded the hearing, Mr. Sweet, you were asked to bring certain figures of valuation. Was that of the Minneapolis Railway Co.?

Mr. SWEET. The Minnesota Transfer Co.

Senator SHIPSTEAD. The Minnesota Transfer Co. And of the Minneapolis Railway Co. also?

Mr. SWEET. I understood it to apply to the Minnesota Transfer Railway Co., but I have the same figures for the Railway Transfer Co. of the city of Minneapolis if you want them.

Senator SHIPSTEAD. You can give the figures answering the question which was asked you yesterday.

Senator DIETERICH. Might I interrupt at that point? That was as to the Terminal, was it not?

Mr. SWEET. Yes.

Senator DIETERICH. The Terminal property which you valued at some $4,000,000?

Mr. SWEET. Yes. That is the Minnesota Transfer Railway Co.

Senator DIETERICH. That is the Minnesota Transfer Railway?

Mr. SWEET. Yes.

Senator DIETERICH. That owns the Terminal property?

Mr. SWEET. Yes.

Senator SHIPSTEAD. Of the Minneapolis & St. Louis Railroad Co. or the Minneapolis Railway?

Mr. SWEET. That is the company that owns the property in which there are nine railroad owners.

Senator SHIPSTEAD. Yes; but that is not what is called the Minneapolis Terminal of the M. & St. L. Railroad, is it?

Mr. SWEET. The Minneapolis & St. Louis Railroad Co. owns property which is operated by the Railway Transfer Co. in terminal and switching service.

Senator DIETERICH. It was the valuation of some $4,000,000 which you placed upon that property of this particular railroad in question that we asked you to divide and see what the items were that constitute that value.

Mr. SWEET. Yes. That was the Minnesota Transfer Railway, Senator.

Senator DIETERICH. Well I do not know what it is. You should know what it was. It was a property that you say is owned by this railroad that the value was placed on of some $4,000,000. And that question was as to how you arrived at that value.

Mr. SWEET. I can give that to you.

Senator DIETERICH. That is the property owned by this railroad company in question?

Mr. SWEET. No.

Senator SHIPSTEAD. No; that is part owned. The railroad is part owned.

Senator DIETERICH. That is a different story then than the story of yesterday.

Mr. SWEET. No; I think it is the same story.

Senator DIETERICH. Then I misunderstood it, and it is not unusual that I misunderstand a thing. What is the interest then that they have in this property?

Mr. SWEET. I explained yesterday that nine railroads own and control the Minnesota Transfer Railway Co. One of the nine is the Minneapolis & St. Louis Railroad Co.

Senator DIETERICH. Yes. And that is the property that is valued at $4,000,000?

Mr. SWEET. That is right.

Senator DIETERICH. So they have one-ninth of the $4,000,000 valuation?

Mr. SWEET. They have one-ninth of the ownership of the stock of that company.

Senator DIETERICH. Well, let us get our minds together now. Does that stock represent the ownership?

Mr. SWEET. Yes.

Senator DIETERICH. Then they have the ownership of one-ninth of that property? Am I correct about that, or is there a technical difference there that might change it?

Mr. SWEET. We recognize this technical point in that connection, Senator, and that is that the Minnesota Transfer Railway Co. is the corporation which holds titile to the property, but the Minneapolis & St. Louis Railroad Co. is a stockholder in that company.

Senator DIETERICH. In that company?

Mr. SWEET. Yes; that is right.

Senator DIETERICH. And owns one-ninth of the stock?

Mr. SWEET. Yes.

Senator DIETERICH. One-ninth of the stock which represents the full ownership of the company?

Mr. SWEET. The entire ownership is represented——

Senator DIETERICH. By stock?

Mr. SWEET. Yes.

Senator DIETERICH. But one-ninth of it is owned by this railroad company?

Mr. SWEET. Yes.

Senator DIETERICH. So with the property valued at $4,000,000 this company's interest would be one-ninth of that $4,000,000. Had I known it was that insignificant I would not have asked you to go to that trouble.

Mr. SWEET. I think that was explained yesterday.

Senator DIETERICH. Well, I think the record will show that the evidence at least conveyed the impression that they owned $4,000,000.

Mr. SWEET. Would you like to have the figures as to land and structural elements for that property?

Senator DIETERICH. If you have them. I should not want to say that you should not give them now. If I had known that there was only a one-ninth ownership in the Minneapolis & St. Louis Railroad Co. I would not have asked you to have gone to that trouble.

Senator BENSON. Mr. Sweet, I think there is some misunderstanding here. The Minneapolis Railway Co. is owned in its entirety by the Minneapolis & St. Louis Railway Co., is it not? That is, I refer to the Minneapolis Railway Transfer Co.

Mr. SWEET. That is an entirely different proposition.

Senator DIETERICH. Then I did get that impression correctly, apparently, which I had when I began my questioning.

Senator BENSON. There is a point of confusion there.

Senator DIETERICH. I am glad that I was listening right for once. I am glad I did get that impression correctly.

Senator BENSON. Yes; there is no question about that. And that is the property that you have been inquiring about, Senator Dieterich.

Senator DIETERICH. That is the property that I wanted broken up in the valuation, to see how they arrived at that valuation.

Mr. SWEET. The Senator was talking about the property of which the valuation was $4,000,000.

Senator BENSON. That is right.

Mr. SWEET. That is the Minnesota Transfer Railway.

Senator BENSON. I do not know what the valuation of the Minnesota Transfer Railway Co. is, but the Minneapolis Railway Co.—if that is what it is called?

Mr. SWEET. No; the Railway Transfer Co. of the city of Minneapolis.

Senator BENSON. The Railway Transfer Co. of the city of Minneapolis; that also has a valuation of $4,000,000, has it not?

Mr. SWEET. No; that was around $900,000. I gave the figures.

Senator DIETERICH. We do not seem to be very clear on that question.

Mr. SWEET. Oh, yes; I am perfectly clear on it. I gave a figure for the Railway Transfer Co. of the city of Minneapolis as $922,000.

Senator SHIPSTEAD. Mr. Sweet, let me read the record. This is from the record of the hearing of yesterday. The question was asked you:

Q. Has that subsidiary, or the railroad company itself, the parent company, any interest in the Minnesota Transfer?

And Mr. Sweet said:

The Minnesota Transfer Railway is equally owned, by transfer of stock, by nine companies.

And so forth. Then the question was asked:

What would be the valuation of the interest owned by the M. & St. L.? Has the Commission fixed that value?

Mr. Sweet said:

The value of the Minnesota Transfer was fixed by the Commission as of June 30, 1919, for rate-making purposes at $4,279,000.

And that answer was what started the controversy.

Senator DIETERICH. I probably was not listening to the former questions. That is probably my fault, because I thought it was entirely owned by it. There is a terminal facility there, though, that is owned entirely by this company?

Mr. SWEET. That is the Railway Transfer Co.

Senator DIETERICH. Have you broken up the valuation to show how they arrived at the $900,000 valuation on that?

Mr. SWEET. The Commission's total value as reported was $922,000. In examining the Commission's report in that case I find that it estimated the cost of reproduction new of structural property—that does not include any land or materials and supplies on hand—at $302,021. Less depreciation, that figure became $220,995. And the value of the land is shown in that report at $693,737.

Senator DIETERICH. Do you know what the acreage of that land is?

Mr. SWEET. I have not that figure. The report, however, shows it, and the report is contained in volume 133, I. C. C., at page 811.

Senator DIETERICH. Let me ask you this question, Mr. Witness. In arriving at the value of land upon which are erected structures belonging to a railroad company or any other company, for that matter, the value of that land is determined a great deal by the earning power of whatever the structure is that occupies it; is it not?

Mr. SWEET. The land value is determined separately from the value of structures upon it and the——

Senator DIETERICH. You always lead me away to something else, and my single-track mind cannot follow you. I have got to come back again. The question I asked you was, if the value of the land was determined to a great extent by the earning power of the structure that was located upon it?

Mr. SWEET. My answer to that would be "No."

Senator DIETERICH. Your answer to that question would be "No." Well, it is the land as railroad property?

Mr. SWEET. It is the land, not specially as railroad property——

Senator DIETERICH. It is land for the highest use for which it can be used? That is the way they fix the value of land, is it not? The value of the land for the most valuable use that it could be placed there?

Mr. SWEET. That is given consideration, but as a practical matter——

Senator DIETERICH. Well, is that not in condemnation suits and practically every other proceeding the absolute rule? Land may be used as railroad property while its value may be a great deal more than railroad property, for some other use that it is adapted for?

Mr. SWEET. The highest use to which land can be put, of course, affects its market value.

Senator DIETERICH. Yes.

Mr. SWEET. And the endeavor in these estimates of land valuation and valuation work is to get at the so-called present market value of the land.

Senator DIETERICH. And after all is said and done there is no fixed rule by which they can determine it, and it is all a matter of opinion?

Mr. SWEET. Yes.

Senator DIETERICH. It is all a matter of opinion?

Mr. SWEET. Very largely a matter of opinion.

Senator DIETERICH. Yes.

Mr. SWEET. Based upon inquiries of experts who ought to know values. Based on examination of records of sales.

Senator DIETERICH. I understand that.

Mr. SWEET. And to some extent tax assessments are taken into consideration.

Senator DIETERICH. If the chairman will pardon me, I should like to ask him a question. How near are we through with the questionnaire?

Senator SHIPSTEAD. I have quite a considerable amount of information which is requested to be furnished in the questionnaire.

Senator DIETERICH. Not knowing what the questionnaire leads up to eventually, I think it would be a good idea to get into this record what the actual indebtedness of this company is.

Senator SHIPSTEAD. Oh, yes.

Senator DIETERICH. And what are the outstanding obligations of the company.

Senator SHIPSTEAD. Yes.

Senator DIETERICH. I do not want to interrupt this proceeding until the chairman of the subcommittee gets through with his questions, but when the time comes I shall want those facts brought out by the records.

Senator SHIPSTEAD. Yes; the whole thing will be brought out.

Senator DIETERICH. Then I will not worry myself about that feature at present.

Senator SHIPSTEAD. We want to get all the information we can. The whole committee, I am sure, is unanimous about that.

On this question of valuation, I wish to ask the witness this question. The Interstate Commerce Commission has valued the whole railroad system of the M. & St. L., has it not?

Mr. SWEET. Yes.

Senator SHIPSTEAD. The Interstate Commerce Commission has given a value, as I understand, for rate-making purposes based upon cost of reproduction less depreciation.

Mr. SWEET. Yes.

Senator SHIPSTEAD. Can you give us the figures?

Mr. SWEET. The Commission has reported only one single sum figure for the Minneapolis & St. Louis Railroad Co., and it calls that the value for rate-making purposes. Now in getting at that single sum value the Commission has considered elements that I mentioned yesterday, including reproduction cost estimates of the physical property, estimates of the market value of land, and working capital, materials and supplies, and something for good will, and things of that sort.

Senator SHIPSTEAD. When the Commission valued the property, no matter for what purpose, they used the same method of measurement of values as they did on the other railroads of the country, did they not?

Mr. SWEET. Yes.

Senator SHIPSTEAD. And that method has been well known from the beginning of valuation under the La Follette Valuation Act, and has been to some extent a matter of controversy in courts, and still is a matter of controversy?

Mr. SWEET. That is true.

Senator SHIPSTEAD. But the Commission did fix a value on the whole railroad property. Can you give us the figure?

Mr. SWEET. Yes. As of June 30, 1917, the Commission reported in its volume 137 I. C. C. 761, the value of the property of the Minneapolis & St. Louis Railroad as a whole for rate-making purposes. The value of the property which the Minneapolis & St. Louis owned and was using in its transportation service was fixed at $45,403,000. In addition to that——

Senator DIETERICH. Might I interrupt you there? Is that the latest value that you have?

Mr. SWEET. Yes. That is the only final value the Commission has ever reported.

Senator DIETERICH. That is 20 years ago?

Mr. SWEET. Yes. Nineteen years ago, to be accurate.

Senator DIETERICH. Nineteen years ago. Would you consider that an accurate value to base a judgment on at this time?

Mr. SWEET. It is not the value that should be used for any purpose today.

Senator DIETERICH. Is there any place where you can get and give to us the value of the property as of this time, dealing with the present time?

Mr. SWEET. No; that has not been ascertained.

Senator DIETERICH. Then do you consider that a safe thing on which to fix a value and on which to base a judgment and verdict, and upon which to act, as to what the property was worth 19 years ago?

Mr. SWEET. I should say that that is within the province of the committee.

Senator DIETERICH. Well, the province of the committee cannot go beyond what human intelligence would dictate. Has the Interstate Commerce Commission any idea of what the value of the railroad company is today?

Mr. SWEET. I can only say this, that it would not in my humble judgment be proper for the Commission to use that figure in connection with any of its activities.

Senator DIETERICH. And yet when you want this committee to advise the Commission you think that it is proper for the committee to take that figure into consideration, although it would not be proper for the Commission to take it into consideration?

Mr. SWEET. What consideration the committee will give to it is, of course, for the committee to say. I can give only——

Senator DIETERICH. You would not give any consideration to it if you were sitting as a Commission?

Mr. SWEET. Not until it was revised and brought up to date.

Senator DIETERICH. No. You do not know what changes have taken place in that time in the value?

Mr. SWEET. No.

Senator DIETERICH. You do not know what has been done to change the value of the property in the way of decay and waste and neglect?

Mr. SWEET. No.

Senator DIETERICH. Therefore it is no measure at all?

Mr. SWEET. It is only a starting point.

Senator DIETERICH. It is not even a starting point, is it?

Mr. SWEET. I think it might be taken as a starting point and the figure adjusted to the present time as a figure.

Senator DIETERICH. Have you gone through the process of adjustment?

Mr. SWEET. I have not.

Senator DIETERICH. You have not. How do you expect the committee to do it?

Mr. SWEET. I do not ask the committee to do it.

Senator SHIPSTEAD. This application proposes to go through a period or a process of readjustment, and I think we ought to bear that in mind. It is proposed to sell this property for $7,200,000.

Now as a matter of fact, Mr. Sweet, when an application of this kind comes before the Interstate Commerce Commission, the duties of the Commission are confined, are they not, to determining whether a proposition of this kind is in the public interest, and if the public interest would be served with railroad service, and so forth? As a matter of fact the Commission has nothing to do, has it, with whether or not there is adequate compensation to those who have some kind of financial interest in the property?

Mr. SWEET. That is true, Senator, in this kind of a proceeding, which is a receivership proceeding.

Senator SHIPSTEAD. Yes.

Mr. SWEET. It lies with the court, as we understand the law, to determine what consideration should be received on a foreclosure sale of the property. The Commission can only deal with the situation as met.

Senator DIETERICH. If a Government agency such as the Reconstruction Finance Corporation is lending the money your only concern is whether or not you would approve of that loan from Government funds?

Mr. SWEET. That is one of the questions here.

Senator DIETERICH. That is the only question you would determine. Outside of that it is entirely for the court, is it not?

Mr. SWEET. Of course the Commission——

Senator DIETERICH. Well, if the court puts it up for sale and the bidder gets its money from private sources, then you have nothing to do with it, have you?

Mr. SWEET. The new railway-company securities cannot——

Senator DIETERICH. Please answer my question if you understand it. I say, if the court puts it up for sale and the bidder bids a certain amount for this railroad property, and he lays down money

out of his own pocket, you have not anything to say about it then? The title passes to him?

Mr. SWEET. That is true.

Senator DIETERICH. Yes. So the only concern you can have in it if somebody makes application to a Government agency to help finance the consideration?

Mr. SWEET. Or to operate the property. Nobody can acquire the property for the purpose of operation without going to the Interstate Commerce Commission with an application for permission or for authority to do so.

Senator DIETERICH. You cannot control the operation of the property if they are operating the property?

Mr. SWEET. That is true.

Senator DIETERICH. When they go to change the operation of the property, that is when you come in?

Mr. SWEET. The Interstate Commerce Commission also has charge of the acquisition of property by railroads.

Senator DIETERICH. Yes. And abandonments.

Mr. SWEET. Yes.

Senator DIETERICH. The Commission has charge of abandonments of property.

Mr. SWEET. If some other railroad would bid for this it would be necessary for that railroad to come in to the Commission.

Senator DIETERICH. Senator Benson and I could appear at that sale and buy this property. You could not object to us as buyers?

Mr. SWEET. No.

Senator DIETERICH. You could not interfere with that?

Mr. SWEET. No.

Senator DIETERICH. We could buy the property and start operating it. When we start operating we would have something to do with your Commission?

Mr. SWEET. Yes.

Senator DIETERICH. But, as to purchasing the property, you have nothing to say about that?

Mr. SWEET. No; that is true.

Senator DIETERICH. Yes. That is all within the court.

Senator SHIPSTEAD. Mr. Sweet, will you describe as briefly as you can and as generally as you can the kind of country through which this road travels?

Senator BENSON. Let me interrupt. Going back to your answer to the previous question regarding the valuation of this railroad in which you stated that the 1917 figure was the latest figure you had, is it not a fact that you do have figures up to date, or more up to date than 1917 figures, on additions and betterments that have been added to this railroad and to every other railroad?

Mr. SWEET. Yes. The railroads are required by orders of the Commission to report changes in their investment in property; additions and retirements and changes of that character.

Senator BENSON. Then the 1917 figure is not the latest figure you have on the valuation of this railroad, is it?

Mr. SWEET. It is the only figure we have stating a single-sum value. We have information, however, as to the changes that have occurred in that property, in its condition, in the amount of the property with respect to additions, with respect to retirements, but the Commission has never formed any judgment on consideration of those figures.

Senator BENSON. No; but you do have those figures, do you not?

Mr. SWEET. They are available; yes. They are reported by the carriers and checked.

Senator BENSON. And those figures, deducting depreciation, do enhance the figure you have given here of 45 or 46 million dollars, do they not?

Mr. SWEET. They would enhance it if the additions exceeded the retirements.

Senator BENSON. You have reports of that?

Mr. SWEET. We have the figures from which that could be ascertained.

Senator BENSON. And the net addition is the increase in that valuation, is it not?

Mr. SWEET. I am not advised as to that.

Senator DIETERICH. Mr. Witness, you say that you have reports showing additions and deductions. They report to you improvements and changes in the physical condition of the property. They report to you additions that are made. They report to you abandonments that they make of the physical property. Is that correct?

Mr. SWEET. Yes.

Senator DIETERICH. They do not report to you the depreciation of the physical property, do they?

Mr. SWEET. We compute that.

Senator DIETERICH. You compute that?

Mr. SWEET. Yes.

Senator DIETERICH. Ties have a certain life, do they not, on the road?

Mr. SWEET. Yes. They are usually renewed as they require renewal.

Senator DIETERICH. What did you say?

Mr. SWEET. Those are usually renewed as they require renewal.

Senator DIETERICH. They usually are, but some roads do not renew them frequently, do they?

Mr. SWEET. Sometimes they get behind in renewing them.

Senator DIETERICH. Would it surprise you if I were to tell you that a damage suit resulted by reason of a man walking across a trestle, and the ties were so rotten that he fell through one of them and hurt himself?

Mr. SWEET. No; it would not.

Senator DIETERICH. There was not much renewal there?

Mr. SWEET. No.

Senator DIETERICH. You do not know whether this road is on a par, so far as the condition of its ties is concerned, with that road I cited as an example, or not?

Mr. SWEET. No.

Senator BENSON. Was that on the M. & St. L.?

Senator DIETERICH. Then you have not any information as to what the depreciation would amount to as against additions to it, have you?

Mr. SWEET. Well, I cannot state exactly what the condition of the Commission's information on that is, Senator. The Commission employs engineers——

Senator DIETERICH. You cannot state exactly what information the Commission has on that subject. Then I will not press you further about that. I will not ask you to speculate as to that.

Senator BENSON. You do have further information on that subject, do you not?

Mr. SWEET. Yes.

Senator BENSON. It may be reliable or it may not be?

Mr. SWEET. The Commission has engineers in its Bureau of Valuation who, as their time and appropriations permit, inspect the properties with the view of keeping informed as to their condition. Now, whether they have done that in the case of the Minneapolis & St. Louis Railroad, lately or not, I am not advised. I am not in the Bureau of Valuation.

Senator SHIPSTEAD. Will you continue to answer that question about the general territory of the road?

Senator DIETERICH. The figure which you gave is the figure of valuation, you say, for rate-making purposes. Other figures might come in together with that figure, at the same time. Have you now a valuation based on cost of replacement?

Mr. SWEET. The only single sum figure the Commission has reported is on the one I gave as of 1917.

Senator DIETERICH. And that was for rate-making purposes?

Mr. SWEET. That was for rate-making purposes.

Senator DIETERICH. In 1917.

Senator SHIPSTEAD. Did they make or fix a value or cost of reproduction less depreciation?

Mr. SWEET. Yes.

Senator SHIPSTEAD. Can you give us that figure?

Mr. SWEET. I can state what the Commission reported as the cost of reproduction new less depreciation, value of lands and rights in lands in connection with the final figure which is reported for 1917. Reproduction new is stated in that report. That excludes lands, materials and supplies, and working capital.

Senator SHIPSTEAD. That includes those items?

Mr. SWEET. No; that excludes those items. It excludes lands, materials, and supplies, and working capital. That figure is $48,338,996. Reproduction less depreciation of the same property at the same time was ascertained to be $36,141,498.

Senator DIETERICH. What is the last figure?

Mr. SWEET. $36,141,498.

Senator DIETERICH. That was less depreciation?

Mr. SWEET. Yes. The value of the lands and rights in lands was reported in that same report at $7,038,079.

Senator SHIPSTEAD. Does that include rights-of-way and lands in terminals, and so forth?

Mr. SWEET. All lands owned and used and rights in lands that are owned and used by the Minneapolis & St. Louis Railroad Co.

Senator DIETERICH. That was in 1917?

Mr. SWEET. That is right.

Senator DIETERICH. And that was the year before we entered into the World War?

Senator BENSON. That was the year we entered the World War.

Senator DIETERICH. Yes; that was the year we entered the World War.

Mr. SWEET. That is true.

Senator DIETERICH. And that was a time when railroad property probably was more valuable than at any other time during the period of the history of railroads, was it not?

Mr. SWEET. Well, not according to the Commission's valuation methods. Prices that were applicable in the making——

Senator DIETERICH. You are talking about reproduction cost at that time. At that time the cost of reproduction was much more than it was in normal times, was it not?

Mr. SWEET. It was more than it had been for some years previous to that time.

Senator DIETERICH. It was more than it had been for some years previous, and it was more than it is at the present time, was it not?

Mr. SWEET. I should say pretty close to the same.

Senator SHIPSTEAD. In fixing the valuation for rate-making purposes and the cost of reproduction were the prices of 1917 the measure of value at that time, or was it a valuation based on prices of an earlier period?

Mr. SWEET. In making reproduction cost estimates for this valuation and all other valuations reported at different valuation dates, the so-called 1910–14 price period was taken. That is, the prices that prevailed during that period were applied to physical structures in making the estimates of cost for reproduction new.

Senator DIETERICH. And then you did not take the cost of reproduction as what it would cost to reproduce at that time?

Mr. SWEET. Not as of 1917. However, the land values were approximately those as of 1917.

Senator DIETERICH. And at that time land was more valuable than it has been in most any period in history?

Mr. SWEET. I think more valuable than land had been theretofore.

Senator DIETERICH. Yes. And the lands were a great deal more valuable than they have been recently, too, were they not? Lands of all kind?

Mr. SWEET. Possibly you are right about that. I am not advised as to what effect the depression had on land values in that territory.

Senator SHIPSTEAD. Will you now answer the pending question, please, Mr. Sweet. Just give a general, brief description of the kind of territory that this railroad operates in.

Mr. SWEET. It is indicated by the return to the acquisition questionnaire that the country through which the Minneapolis & St. Louis Railroad operates is level in many sections and rolling in other sections, and that practically all of it is cultivated. A small amount is in timber and a small part of it is underlaid with coal. The applicant's answer to question 18 of the same questionnaire is that farming, manufacturing, dairying, and coal mining are the principal industries carried on in the territory served by the lines sought to be acquired, and that these industries are of relative importance in the order named.

Senator SHIPSTEAD. The road has been in receivership since 1923, has it?

Mr. SWEET. That is right.

Senator SHIPSTEAD. And it is in Judge Booth's court?

Mr. SWEET. That is right.

Senator SHIPSTEAD. And the receiver has been operating it ever since?

Mr. SWEET. Yes.

Senator SHIPSTEAD. Has the receiver made application to the Interstate Commerce Commission for permission to abandon certain sections of the road?

Mr. SWEET. Yes.

Senator SHIPSTEAD. Will you tell us what they are?

Mr. SWEET. The present receivers of the Minneapolis & St. Louis Railroad on August 1, 1935, filed five applications for certificates that the public convenience permitted the abandonment of certain lines. These applications were assigned Finance Docket Nos. 10907 to 10911, inclusive.

In Finance Docket No. 10907 permission was sought to abandon the line from Otho to Berkley, Iowa, approximately 36.3 miles. This is a part of the line between Fort Dodge and Angus, Iowa, which the Associated Railways has also requested permission to abandon. On April 7, 1936, the Commission, by division 4, issued a certificate permitting the abandonment.

In Finance Docket No. 10908 permission was sought to abandon the branch line extending from G. & M. junction to Montezuma, Iowa, approximately 13.6 miles. This is one of the lines which the Associated Railways proposes to abandon. On April 17, 1936, the Commission, by division 4, issued a certificate permitting its abandonment.

In Finance Docket No. 10909 permission was sought to abandon the line between Spencer and Storm Lake, Iowa, approximately 36.9 miles. Division 4's order of March 25, 1936, in that docket permitted the abandonment of this line by the receivers, and its order of the same date in Finance Docket 11092 authorized acquisition and operation of that part of the line between Storm Lake and Rembrandt, Iowa, by the Chicago, Milwaukee, St. Paul & Pacific Railroad Co.

Senator DIETERICH. That has been transferred then?

Mr. SWEET. Authority was granted to make the transfer, yes.

Senator DIETERICH. Is that the same 36.9 miles sought to be transferred?

Mr. SWEET. No; it does not include quite all of it. The acquisition by the Chicago, Milwaukee, St. Paul & Pacific Railroad Co. covered the line from Storm Lake to Rembrandt, Iowa.

Senator DIETERICH. What is the mileage of that line for which authority was given to be acquired by the other road?

Mr. SWEET. My best information is that it is about 10 or 12 miles out of Storm Lake.

It will be noted that this certificate permits the abandonment of that part of the line between Sioux Rapids and Rembrandt, Iowa, 6 miles, which the Chicago & North Western proposes to acquire——

Senator DIETERICH. You say the Chicago & North Western proposes to acquire it. Is that an independent proceeding? Has action been taken?

Mr. SWEET. That is in this case, as I understand it, what the Chicago & North Western proposes to acquire.

Senator SHIPSTEAD. In the application?

Mr. SWEET. Yes. And two miles of track extending from C. R. I. & P. crossing to Greenville, Iowa, which the Rock Island proposes to acquire, but authorizes the acquisition and operation by the Milwaukee of the line between Storm Lake and Rembrandt, 12.51 miles, which the Associated seeks permission to abandon. The line between Sioux Rapids and Rembrandt was to be kept in operation by the C. & N. W. to give service to Rembrandt. This town will receive service from Storm Lake over the line to be acquired by the Milwaukee, according to what appear to be the present plans.

Senator DIETERICH. Let me interrupt you in order that I may get this matter correctly in mind. You are talking about what is proposed to be acquired by this application which is before us for this line, or is that an independent proceeding by the receivers?

Mr. SWEET. I explained yesterday what the applications are which are pending now before the Commission.

Senator DIETERICH. The proposed operation of the 12 miles for which authority was given, that is independent of anything that may be done if the application that is before us is granted? That will be done regardless of this application?

Mr. SWEET. Yes.

Senator DIETERICH. Yes. Now, are the other matters you are talking about, matters that are proposed to be done in this particular application for which authority has not been granted yet?

Mr. SWEET. Yes; authority has to be granted for them.

Senator DIETERICH. So that we may get it in our laymen's minds, will you tell us whether the Commission could authorize the continuance of operation of the abandonments that have been asked for and authorized by the receivers?

Mr. SWEET. Yes.

Senator DIETERICH. That will be made independent of any application here on which we do not know what the action will be?

Mr. SWEET. Yes.

Senator SHIPSTEAD. The question I believe was asked as to what the receivers had asked the abandonment of.

Mr. SWEET. Yes. I am giving that.

Senator SHIPSTEAD. Are there any other abandonments here in the answer that you are giving except those asked for by the receivers?

Mr. SWEET. No.

Senator SHIPSTEAD. Will you continue then?

Mr. SWEET. I have now the exact figure for the line between Storm Lake and Rembrandt which the Milwaukee is to operate. That is 12.51 miles. The Associated, however, in this proceeding seeks authority to abandon that.

Senator DIETERICH. Let me get myself clear on that. That is a proceeding that has been had before the receivers, and the Commission has given sanction for that operation by this particular railroad?

Mr. SWEET. By the Milwaukee; that is right, yes.

Senator DIETERICH. Yes. And that will be done regardless of this petition or application?

Mr. SWEET. Yes. That has been done already.

Senator DIETERICH. That is already done?

Mr. SWEET. Yes.

Senator DIETERICH. So this petition is void as to that part, because that is something that is no longer the property of this railroad?

Mr. SWEET. Well, so far as I know, the Associated Railways Co. has not yet withdrawn its application.

Senator DIETERICH. They would not even get possession of that, so they would not have anything to say about this, would they?

Mr. SWEET. It is included, as I understand it, in this sale.

Senator DIETERICH. Pardon me for interrupting further, but I want to get myself clear on this point. How could it be included in the sale if the receiver has made application to permit the use and the operation of this by the other railroad, and that permission has been given? Was there not a consideration paid for that, and was not the title to it transferred?

Mr. SWEET. If the transfer is made before this proceeding is wound up then it will be out of the picture. That is true.

Senator DIETERICH. Yes. Well, we cannot tell whether that will be done or not, can we?

Mr. SWEET. It probably will be, because I understand the Milwaukee is anxious to get it.

Senator DIETERICH. So the petition in reciting that this is a part of the railroad property might have to be amended, and this be eliminated?

Mr. SWEET. Possibly.

Senator SHIPSTEAD. Mr. Sweet, yesterday you gave the portions of the road to be abandoned under the application. Today I have asked you what portions of the road have been asked to be abandoned by the receivers.

Mr. SWEET. Yes.

Senator SHIPSTEAD. And the reason for that question is that I want to know the difference in the mileage and the exact location of these two proposed abandonments. Will you continue and then when you are through I will ask you to give us the aggregate amount of mileage that the receivers asked to be abandoned.

Mr. SWEET. I have already given you three of the five proposals of the receivers to abandon.

The next one is the application in Finance Docket No. 10910 in which permission is sought by the receivers to abandon the branch line extending from Newburg to Van Cleve, Iowa, approximately 16.1 miles. The application was dismissed by order of division 4, entered January 11, 1936, upon consideration of the offer of the receivers to continue operation of the line for carload traffic upon call or demand basis, with similar service for less-than-carload traffic in lots of 6,000 pounds or more.

In Finance Docket No. 10911, permission was sought to abandon that part of the Hampton-Algona, Iowa, line between Corwith and Algona, Iowa, approximately 15.1 miles. That part of the application requesting permission to abandon the portion of the line between Corwith and St. Benedict was withdrawn at the hearing on that application, and on February 21, 1936, the Commission issued a certificate permitting abandonment of operation of that part of the line between St. Benedict and Algona, approximately 8.5 miles, and dismissed the application as to that part of the line between St. Benedict and Corwith. The Milwaukee seeks authority to acquire and operate the line covered by this application.

Senator SHIPSTEAD. Can you give us the approximate mileage that is being asked by the receivers to be abandoned?

Mr. SWEET. By the receivers?

Senator SHIPSTEAD. Yes.

Mr. SWEET. That has been computed at approximately 82.8 miles.

Senator DIETERICH. You say "asked to be abandoned." How much of that was the order given for abandonment?

Mr. SWEET. The entire amount.

Senator DIETERICH. The entire amount?

Mr. SWEET. That is the figure of the authorized abandonment.

Senator SHIPSTEAD. Has it all been granted?

Mr. SWEET. Yes.

Senator SHIPSTEAD. Has the Minneapolis & St. Louis Railroad borrowed any money from the Reconstruction Finance Corporation? Have they made any application for loans?

Mr. SWEET. The present receivers have not made any application to the Reconstruction Finance Corporation for a loan.

Senator SHIPSTEAD. Has the Commission loaned any money to the Minneapolis & St. Louis Railroad?

Mr. SWEET. The Commission itself, of course, has never made loans, but it has approved loans for the Minneapolis & St. Louis Railroad that were made by the Secretary of the Treasury pursuant to applications filed under section 210 of the Transportation Act, 1920.

Senator SHIPSTEAD. That was made after several applications to the Commission, was it not?

Mr. SWEET. Yes.

Senator DIETERICH. What are the amounts of those loans?

Mr. SWEET. I will state what those loans were.

Senator SHIPSTEAD. What action was taken by the Interstate Commerce Commission?

Mr. SWEET. On May 29, 1920, Finance Docket 990, the Minneapolis & St. Louis Railroad Co. applied to the Commission for a loan of $7,758,500 under section 210 of the Transportation Act of 1920.

Senator DIETERICH. Give that amount again. Seven million dollars and what?

Mr. SWEET. $7,758,500. That was under section 210 of the Transportation Act of 1920. The amount requested was reduced to $4,398,500 by amended application. On March 28, 1921, division 4 certified to the Secretary of the Treasury that a loan of $1,382,000 was necessary and approved a loan in this amount.

Senator DIETERICH. How much was that?

Mr. SWEET. $1,382,000.

Senator DIETERICH. That is the result of this proceeding, is it not? That was finally done?

Mr. SWEET. That was done.

Senator DIETERICH. Yes; was that loan made?

Mr. SWEET. Yes.

Senator DIETERICH. By the Secretary of the Treasury?

Mr. SWEET. Yes.

Senator DIETERICH. Under section 210?

Mr. SWEET. Yes; that is right.

Senator DIETERICH. And that is outstanding now?

Mr. SWEET. Yes.

On June 28, 1921, Finance Docket 990, division 4 approved loan of $386,190 by the United States to the National Railway Service Corporation to aid the Minneapolis & St. Louis Railroad to purchase equipment.

On February 28, 1922, in Finance Docket 2265——

Senator DIETERICH. Let me interrupt you there. Was that loan made?

Mr. SWEET. Yes.

Senator DIETERICH. That obligation is still outstanding?

Mr. SWEET. I cannot tell you the status of that loan at present.

On February 28, 1922, Finance Docket 2265, the Minneapolis & St. Louis applied to the Commission for a loan of $2,000,000 under section 210 of the Transportation Act of 1920. A hearing was had on the application in March 1923. The road went into receivership while that matter was pending, and the loan was not approved.

Senator DIETERICH. It was not approved?

Mr. SWEET. Not approved.

Senator SHIPSTEAD. Have the receivers made an application to the Commission for permission to obtain a loan or any loans from the Reconstruction Finance Corporation?

Mr. SWEET. Yes.

Senator SHIPSTEAD. What was the amount of loan applied for, and what action was taken by the Commission?

Mr. SWEET. On April 4, 1932, W. H. Bremner, receiver of the M. & St. L., applied for a loan of $3,898,629.50 from the Reconstruction Finance Corporation. On April 30, 1932, division 4 approved a loan of $2,698,630. Minneapolis & St. Louis Railroad Co., receiver Reconstruction loan, 184 I. C. C. 238. On March 2, 1933, division 4 canceled certificate of April 30, 1932, and dismissed the application, the receiver withdrawing the application on February 27, 1933, said loan having never been consummated.

On February 6, 1933, W. H. Bremner, receiver of the Minneapolis & St. Louis, applied for a loan of $1,076,594 from the Reconstruction Finance Corporation. On February 25, 1933, division 4 approved a loan of $1,076,594. Minneapolis & St. Louis Railroad Co., receiver Reconstruction loan, 189 I. C. C. 605. On January 14, 1935, division 4 revoked its certificate of February 25, 1933, and dismissed the application because the loan had never been consummated.

Senator SHIPSTEAD. What was the action taken by the Reconstruction Finance Corporation on that application?

Mr. SWEET. By a letter of September 19, 1932, the Secretary of the Reconstruction Finance Corporation advised the Commission that the board of directors of the Reconstruction Finance Corporation was unable to approve the loan approved by division 4 on April 30, 1932. By letter of June 23, 1933, the Reconstruction Finance Corporation advised the Commission that its board of directors was unable to approve the loan approved by division 4 on February 25, 1933.

Senator DIETERICH. Let me interrupt you again, Mr. Witness. What was the receiver asking these loans for?

Mr. SWEET. The receiver was asking for those, as I recall it now——

Senator DIETERICH. His application would state the purposes for which he wanted to use them?

Mr. SWEET. Yes. The applications are fully stated in the Commission's report. The first application is embodied in the report (184 I. C. C. 238).

Senator DIETERICH. I thought possibly you had it there and could tell us what the purposes were for which the receiver wanted this money.

Mr. SWEET. Well, I remember that the receiver wanted money at one time to retire some receiver's certificates. I think no part of that loan was made for that purpose.

Senator DIETERICH. There are some receiver's certificates outstanding, are there not?

Mr. SWEET. Yes.

Senator DIETERICH. In what amount?

Mr. SWEET. I may have that figure a little later. Can I give it when I reach it?

Senator DIETERICH. Something over a million dollars?

Mr. SWEET. I have the figure, but I will give it to you when I reach it.

Senator DIETERICH. Yes. Those receiver's certificates were issued to defray the expenses of the road, were they not?

Mr. SWEET. Yes.

Senator DIETERICH. And the expenses of the receiver. And these loans were asked for, for the purpose of trying to get money in order to operate the road, were they not?

Mr. SWEET. Yes.

Senator DIETERICH. So the road was not earning its operating expenses at that time? Is that true?

Mr. SWEET. I think that is true. There were some interest maturities also for which loans were asked. The Merriam Junction-Albert Lea mortgage, so-called, before its maturity——

Senator DIETERICH. That was a preferred mortgage? Is that correct?

Mr. SWEET. Yes.

Senator DIETERICH. Prior mortgage?

Mr. SWEET. Yes. Before its maturity I think the receivers paid the interest on the bonds under that mortgage.

Senator SHIPSTEAD. Out of this loan in 1933?

Mr. SWEET. And as I recall it now, one of the purposes for which the loan was asked was to enable the receiver to pay that interest.

Senator SHIPSTEAD. The loan was not granted, was it?

Mr. SWEET. It was granted by the Commission but not made by the Reconstruction Finance Corporation.

Senator SHIPSTEAD. Yes.

Mr. SWEET. And then there were other deficiencies in the receiver's income so that he needed money to keep going, and the loan was requested in part for those purposes.

Senator DIETERICH. Mr. Witness, are you prepared in the course of your examination to give us what the amounts are, with the priority of the liens as they present themselves to you? I understand there is some controversy as to priority of liens.

Mr. SWEET. Well, we do not regard the question of priority of liens as primarily for the Commission.

Senator DIETERICH. No.

Mr. SWEET. Of course, in receivership proceedings the question is entirely one for the court.

Senator DIETERICH. If you were authorizing the loan of a large sum of money, some millions of dollars, and the railroad had obli-

gations on which interest was due, and there were other obligations unpaid, before you approved a loan which the railroad desired to make, with which to pay interest, you would determine that that was a priority, would you not?

Mr. SWEET. If we were lending, we would lend for interest on a prior lien.

Senator DIETERICH. On a prior lien?

Mr. SWEET. If we approved a loan for interest on a junior lien, we would want to be assured that the carrier was furnished the money for the interest on the prior lien.

Senator DIETERICH. Yes; for the prior lien.

Mr. SWEET. Yes.

Senator DIETERICH. So you are concerned with the priority of liens?

Mr. SWEET. Yes; in that general way.

Senator SHIPSTEAD. Does the Minneapolis & St. Louis Railroad Co. owe the Reconstruction Finance Corporation any money, so far as you know?

Mr. SWEET. I think not. I know of no loan owed by the Minneapolis & St. Louis Railroad or its receivers to the Reconstruction Finance Corporation.

Senator DIETERICH. Did I not read something in this application in which they claim that they were indebted to the Reconstruction Finance Corporation?

Mr. SWEET. I am not aware of any such claim.

Senator DIETERICH. I just wondered whether that was so.

Senator SHIPSTEAD. The Interstate Commerce Commission has had hearings on this application, has it not?

Mr. SWEET. On the application in 10947?

Senator SHIPSTEAD. Yes.

Mr. SWEET. Yes.

Senator SHIPSTEAD. Did you conduct the hearings?

Mr. SWEET. No. The hearing was conducted by Mr. Boles, Assistant Director of the Bureau of Finance.

Senator SHIPSTEAD. Can you tell me how long those hearings continued?

Mr. SWEET. The hearing at Minneapolis that convened on the 6th of April continued for about 10½ days.

Senator SHIPSTEAD. And they were not finished?

Mr. SWEET. No. The hearing was adjourned at that time. That is, it was adjourned on the 17th of April.

Senator SHIPSTEAD. What further hearings are contemplated?

Mr. SWEET. The proceeding was assigned for further hearing at Minneapolis commencing on the 15th of June, and at that time the hearing will be resumed for presentation by the interveners of testimony in opposition to the general plan embodied in these applications that I have explained. The hearing at Minneapolis will also cover the proposition to abandon the line between Norwood and Hopkins, Minn., which is near Minneapolis. Thereafter hearings are to be held at Fort Dodge, Iowa, on the general feature of the plan and on the proposed abandonment of certain lines in the territory that is in Iowa near Fort Dodge. Also at a number of other places in Iowa, Minnesota, and South Dakota on the proposal to abandon lines in the territory near the places at which the hearings will be assigned.

Senator DIETERICH. Is the receiver joining in these applications for abandonment?

Mr. SWEET. No; the receiver is not a party, as I understand it, in any way to the proceedings in which the Associated Railways are concerned.

Senator SHIPSTEAD. Hearings are to be held in these various places you mentioned?

Mr. SWEET. Yes.

Senator SHIPSTEAD. And parties interested will be given a chance to be heard?

Mr. SWEET. Yes.

Senator SHIPSTEAD. Can you give us an idea as to how long it will take to conduct these hearings?

Mr. SWEET. Of course, it is difficult to forecast the time that may be required, but the best estimate that I can get is that it may take 5 or 6 weeks.

Senator SHIPSTEAD. What is the usual procedure when these hearings have been held? The Commission then makes a review of the findings, or the testimony, and then makes a decision or recommendation either of approval or rejection? Is that it?

Mr. SWEET. In a case like this the procedure following the hearings at which the parties who appear to be interested may present evidence, is to permit them to file briefs in which they set forth the evidence that they want to call to the Commission's attention, and they make their arguments. Those briefs are submitted at a time fixed at the conclusion of the hearings. Then an examiner prepares a report called a proposed report, in which he sets forth fully the facts that he deems to be necessary to a decision of the case, together with his recommendations as to the disposition that the Commission should make of the case. The proposed report is served on all parties who appear in the proceedings. They have 30 days within which to take exceptions to any of the examiner's statements of facts or conclusions or recommendations. They also have the right to request oral argument before the Commission on their exceptions, and the oral argument is granted when it is requested. And after the oral argument is held on the exceptions the Commission takes the case under advisement and issues the final report.

Senator DIETERICH. And that is the proceeding that is to be had upon this application that is before us now?

Mr. SWEET. That is right.

Senator DIETERICH. And this is the proceeding that the Senate committee is trying to advise the Commission on?

Mr. SWEET. Well, of course the committee will have to say what it is trying to do, Senator.

Senator DIETERICH. I do not know. That is what I am trying to find out. You are holding these hearings for the very purpose of determining, and you are giving notice to everybody interested and you are having these hearings for the purpose of determining whether or not this application of this Associated or United Railways, whatever it is, should be granted. The hearings are for the purpose of determining whether their request should be granted, and those hearings are thorough hearings, are they not?

Mr. SWEET. Yes.

Senator DIETERICH. And they are held on the ground so that the people who are interested in them can all attend and file their objections, and be heard, and you will not grant this request until it is evident to the Commission that justice will be done by granting it. That is correct, is it not?

Mr. SWEET. Yes.

Senator DIETERICH. Well, we are kind of taking it away from you and getting ahead of you a little bit, are we not?

Mr. SWEET. Well, that is for the committee to say.

Senator DIETERICH. I am just trying to find out.

Mr. SWEET. I am sure we want to give the committee full information as to what is before tne Commission and as to how the Commission would handle the matter in its regular procedure.

Senator DIETERICH. Well, there is a regular procedure for handling this matter of this application, is there not?

Mr. SWEET. Yes.

Senator DIETERICH. And everybody that wants to be heard is going to have an opportunity to be heard, and you are going to go on the ground where they understand the conditions?

Mr. SWEET. That is the point.

Senator DIETERICH. And have the hearings in the localities affected?

Mr. SWEET. That is true.

Senator DIETERICH. Yes. Well, I am just wondering what assistance we can give to you.

Senator SHIPSTEAD. Are you through?

Senator DIETERICH. Yes; I am all finished.

Senator SHIPSTEAD. Mr. Sweet, in this proceeding the Interstate Commerce Commission has certain duties to perform, and they are performing those duties, are they not?

Mr. SWEET. Yes.

Senator SHIPSTEAD. The Interstate Commerce Commission has not full authority and jurisdiction in disposing in its entirety of this application? Certain duties and jurisdiction come within the province of the court?

Mr. SWEET. Well, of course, the Commission has, I think, full jurisdiction to dispose of every issue involved in the applications before the Commission. There are things to be done in connection with the receivership proceedings over which the Commission has no jurisdiction, of course.

Senator SHIPSTEAD. That is what I mean to say. The Reconstruction Finance Corporation has a certain duty to perform here, the Commission has a certain duty to perform, and the court has a certain duty to perform?

Mr. SWEET. In the receivership; yes.

Senator SHIPSTEAD. Yes; and all three are creatures of the Congress?

Mr. SWEET. Yes.

Senator SHIPSTEAD. They are created by Congress?

Mr. SWEET. Yes. That is true.

Senator SHIPSTEAD. They are created by Congress to do certain things?

Mr. SWEET. I understand that is so.

Senator SHIPSTEAD. And it is generally accepted, is it not, that public policy involving the building of railroads and the transportation system, and abandonments and consolidations, is a policy that reposes in Congress, is it not?

Mr. SWEET. The Constitution confers on Congress the power to regulate interstate commerce.

Senator DIETERICH. May I interrupt there? And that public policy is embodied in those acts that create the Interstate Commerce Commission and direct the process and the operation that should be gone through in order to determine these facts, and that is the policy that Congress has adopted, is it not? Do you understand it is a policy of Congress to interfere in each individual case when the Congress has created a Commission for the purpose of passing upon those cases?

Mr. SWEET. So far as the Commission's activities are concerned, it knows no guidance or direction or force of authority except the law that Congress has enacted.

Senator DIETERICH. Yes; and that is the policy that Congress has adopted?

Mr. SWEET. So far as we know, it is; yes.

Senator DIETERICH. Congress adopts a policy with reference to trying a criminal, but the Congress does not attempt to try the criminal, or to take that jurisdiction out of the court, does it? The policy is to permit the judge of the court to go ahead and adjudicate the thing. In the matter of following this public policy the chairman of the subcommittee and I do not seem to understand the public policy just exactly, eye to eye. The public policy is adopted in the act creating the Interstate Commerce Commission and in the act creating the Reconstruction Finance Corporation.

Another thing, Mr. Witness. If your Commission determines that this application should not be granted, then the Reconstruction Finance Corporation is helpless, is it not?

Mr. SWEET. Yes; it cannot make a loan.

Senator DIETERICH. Yes; and until you have these hearings and determine that question, nobody knows what is going to be done, do they?

Mr. SWEET. That is true.

Senator DIETERICH. Yes.

Senator SHIPSTEAD. Are you aware, Mr. Sweet, that pending before Congress now, is proposed legislation having to do with railroads and abandonment of certain railroads?

Mr. SWEET. Yes.

Senator SHIPSTEAD. That is a policy that the Congress is asked to determine now?

Mr. SWEET. Yes.

Senator SHIPSTEAD. And the proposed legislation is pending before Congress, and is there upon the recommendation of Mr. Joseph B. Eastman?

Mr. SWEET. Yes; Joseph B. Eastman, Federal Coordinator of Transportation.

Senator BENSON. Mr. Witness, if this Congress should decide to take this matter out of the hands of your Commission, that would be perfectly proper, would it not?

Mr. SWEET. Why certainly. I should say that was within the power of the Congress.

Senator BENSON. So there is nothing improper about it if they should do that, so far as you see it?

Mr. SWEET. That would be wholly for Congress to decide, of course.

Senator DIETERICH. Mr. Witness, along that line, Congress cannot do just anything they want to. They are not supreme. Congress has passed a law creating your Commission, and defined its duties and its functions. It cannot take out from that Commission individual cases, under our Constitution. I think we still have a Constitution in this Republic.

Senator BENSON. You know it.

Senator DIETERICH. Under our Constitution, Congress cannot take out from that Commission, individual cases and determine the justice of each particular case. In other words, the Congress cannot sit as the trial court on each particular case. They can create the agency that will go through with the trial, and they can repeal the act creating the Commission, if they want to do so.

Senator BENSON. Or any portion of it.

Senator DIETERICH. Yes. But they cannot repeal it for this road. They have got to repeal it generally.

Senator SHIPSTEAD. There is another thing involved here in the question of public policy at the present time. It is the question of giving employment and keeping people employed. The Congress is appropriating vast sums of money for that purpose. The policy of the administration is to see that as many people are employed as possible. And the Commission itself, I find in its forty-ninth annual report, on pages 37 and 38, takes cognizance of the public policy involved in consolidation and abandonment of railroad properties. I am going to read what they said on the subject:

FINANCIAL LOSSES OF RAILWAY EMPLOYEES

In proceedings under provisions of the Interstate Commerce Act, we issue certificates of public convenience and necessity authorizing railway common carriers to abandon existing facilities, or to unify their railway properties or operations. It follows as a consequence of such abandonments or unifications that sometimes employees are transferred from one location to another and in some cases are dismissed from the service. An instance in which such consequence resulted from the use by one carrier of certain facilities of another, jointly with the latter, is given in our report in *Chicago G. W. R. Co. Trackage*, 207 I. C. C. 315. In individual cases the financial sacrifices involved are calamitous. In some cases the carriers concerned have voluntarily effected arrangements satisfactory to the employees; in others, we were able to impose protective provisions in our orders; but in still others we lacked the statutory authority to impose conditions which just treatment of employees appeared to require. This refers particularly to relocation or abandonment of shops. We recommend further statutory provisions to protect employees from undue financial loss as a consequence of unauthorized railway abandonments or unifications found to be in the interest of the general public, or otherwise lawfully effected.

Senator DIETERICH. Might I interrupt there? Your Commission is going to take all that into consideration in this case, is it not?

Mr. SWEET. I think the statement that the Senator read indicates that in some respects the Commission perhaps is not authorized to deal fully with the question.

Senator DIETERICH. I understand. Let me then ask the question: Is there anything in this resolution saying that we shall make an investigation and submit to Congress recommendations of changes in the law? If there is I did not get it.

Senator SHIPSTEAD. I understand the purpose of the resolution is to obtain information that may be needed and used to formulate legislation or to recommend legislation to the Congress, and in this report the Interstate Commerce Commission recommends statutory legislation to give them certain power.

Senator DIETERICH. If we are sitting as a committee hearing a proposal of that kind it presents a different phase to the question than what I understand to be our purpose; so we might as well get clear on that subject now and not go all over the lot, because I understand the Commission is going to take all of those things into consideration. They are going to take into consideration, when they pass on this application, the effect it will have on the employees of these railroads; that is, they are going to take into consideration the effect of those changes and those abandonments on the employees, and they are going to try to take those things into consideration in their decision. It is not for us to say that they should or should not, except as to the justice of it. They are going to take into consideration the employees of this railroad so far as the statute will permit them to do that. That is correct, is it not?

Mr. SWEET. Yes; that is true.

Senator DIETERICH. Not only that, it is a matter in the court's hands anyway. I did not understand that the situation existed which has just been referred to. I think possibly that is a good subject for legislation. I will be frank with you on that point. I think the recommendation of the Commission is correct, and if there is any statutory authority lacking which, if it were provided, the Commission can do complete justice, then a resolution should be introduced providing for such authority, and a hearing should be had upon it.

The resolution under which the subcommittee is sitting is as follows:

Resolved, That a special committee consisting of five Senators, with adequate representation from the districts to be affected by the proposed dismemberment, be appointed by the President of the Senate to investigate the social and economic effects, and the financial advisability or inadvisability of the proposed sale of the Minneapolis & St. Louis Railroad to the Associated Railways Co., and further to investigate the origin of the dismemberment proposal—

I call attention to that—"the origin of the dismemberment proposal"—

and to determine and pass upon the propriety of the activity of agents of the Reconstruction Finance Corporation in appearing as proponents of the dismemberment and sale; and be it further

Resolved, That the Interstate Commerce Commission be, and hereby is, requested to withhold approval of such dismemberment and sale until such time as the investigation, herewith authorized, shall have been completed, and the committee shall have reported to the Senate in the Seventy-fifth Congress its findings and recommendations.

I did not get that as a change of any general law. If I read that right the purpose of it is that there shall be an investigation of this

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application, and the only thing this committee is investigating is this particular application, and not investigating the propriety of granting more authority to this Commission to go ahead and do justice in these cases that may arise from time to time. And I say that if that authority is lacking, and the Commission says it is lacking, that subject should be given consideration, but the resolution under which the subcommittee is acting does not embody that consideration.

Senator SHIPSTEAD. We can leave that consideration out and continue with the provisions of the resolution.

Senator DIETERICH. It looks as though we were trying to impose ourselves upon an agency of the Government that we have created, and that we were afraid that somebody was not going to do its duty.

Senator SHIPSTEAD. If the Senator objects to going into the question of the importance of abandonment of employment, why——

Senator DIETERICH (interposing). The Senator is not objecting, if the chairman please, to anything the chairman desires to do, but the Senator does want to know what his duties are under the resolution under which the subcommittee is acting, and in connection with the subcommittee of which he has been appointed a member. The Senator from Illinois may differ from the chairman in respect to what he considers to be the purposes of the investigation, but there will be no feeling between the chairman and the Senator from Illinois. The Senator can make any investigation he wants to make. He can investigate other carriers in connection with this matter, so far as I am concerned. I simply say it is not proper, it is not pertinent to the resolution.

From what the Senator from Illinois sees now, with respect to this matter, the Interstate Commerce Commission is going right ahead making its investigation, and before the Reconstruction Finance Corporation can commit any grievous errors, such as charged in this resolution may be made, those making the application have first got to clear the Interstate Commerce Commission, which is holding hearings on this very thing, and holding them in the localities to be affected. I assume that if they would grant this petition they might impose upon the railroads who would take over the different parts of these lines—I am not expressing myself on this particular matter at all—but I suppose they would impose upon the railroads who take over the different parts of these lines the duty of recognizing the rights of and taking care of the employees of the lines that they acquire, recognizing their seniority, taking them into their organization as their own employees, with the rights that have accrued to them in the past, and if the Commission does not do that, then I think the Commission is not dealing justly with the employees of this railroad with which we are dealing. I am led to believe that some of the organizations are willing to do that.

The institution with which we are concerned in our investigation is not such a very sound institution, although I will say that we have not got to the point in the investigation where it has been shown what its obligations are. However, I will say that if I were an employee of that institution I should raher be transferred to a solvent employment, with my rights that I had acquired in previous service intact, rather than to serve a road which is in receivership, in the hands of its creditors, subject to the sale by the court at any time

to any person who will make the bid and produce the money with which to make the purchase.

After all is said and done, the courts of this land have this railroad in their hands, to deal with, and you cannot take it out of the hands of the court. To do so it would be necessary to repeal the statute dealing with that subject, and that will be a pretty long and a pretty hard piece of work to do.

Senator SHIPSTEAD. I am sure the subcommittee appreciates the testimony which the Senator has given.

Senator DIETERICH. I thought perhaps that was a part of the hearing we are conducting, and that I would give my testimony along with the rest.

Senator SHIPSTEAD. If we can continue with the testimony of the witness now we should be glad to do so.

Senator DIETERICH. Yes.

Senator SHIPSTEAD. According to this petition, Mr. Sweet, the Associated Railways have applied to the Reconstruction Finance Corporation for a loan of $7,200,000 to acquire this property and to pay certain existing equipment trust certificates. Is that right?

Mr. SWEET. Yes. An application has been made to the Reconstruction Finance Corporation and filed with the Interstate Commerce Commission. It was filed on the 16th of March 1936, in which a request is made for a loan of $7,200,000.

Senator DIETERICH. May I interrupt again, and then I will try to be more orderly.

Senator SHIPSTEAD. The Senator is always orderly.

Senator DIETERICH. We may view this thing in a somewhat different light after we have gotten the big facts before us. Let us not go into details before we get the big facts before us. What does this road in question owe in the way of obligations?

Senator SHIPSTEAD. I think that was already stated in the record.

Senator DIETERICH. No, Senator; it was not stated in the record.

Senator SHIPSTEAD. I have not stated it yet, but I will come to that in the regular course.

Senator DIETERICH. I know that. The Senator has been telling me that he would come to it, but I should very much like to have him come to that now so that I can talk intelligently about it. What are the outstanding obligations of this railroad?

Mr. SWEET. The applicant's balance sheet as of July 31, 1935, shows total long-term debt outstanding to be $44,263,948.15. In addition to that, receiver's certificates in the amount of $1,185,000.

Senator DIETERICH. Does that include all the bonded indebtedness?

Mr. SWEET. Yes, and more. Of the long-term debt $41,359,050.79 is made up of mortgage bonds, $897,897.36 of equipment notes, $1,382,000 of the United States Government 10-year loan which matured in 1931, and $625,000 of a note to the Director General of Railroads given during Federal control, which matured in 1930. That was the note I referred to a little while ago when I stated that I did not know the status of it.

Senator DIETERICH. Are all those mortgage bonded indebtednesses due?

Mr. SWEET. I might be able to find that out for you, Senator, but I am not prepared at the minute to state. I think it is substantially all.

Senator DIETERICH. Does this include the interest on the bonded indebtedness?

Mr. SWEET. No. That is the principal only.

Senator DIETERICH. Now give me the interest that is due on the bonded indebtedness. That is a part of the obligation, is it not?

Mr. SWEET. The interest that is matured and unpaid as shown by the company's balance sheet of July 31 last, is $30,000,000.

Senator DIETERICH. Thirty million dollars of interest?

Mr. SWEET. $30,290,227.31.

Senator DIETERICH. Well that is a part of the indebtedness as much as the principal, is it not?

Mr. SWEET. It is the unpaid matured interest on the bonds.

Senator DIETERICH. On the bonds; yes. Then what is the total indebtedness, including interest and principal and other obligations?

Senator SHIPSTEAD. Including the stock also?

Senator DIETERICH. Stock is not an indebtedness. The stock may be a liability, but not an indebtedness.

Senator SHIPSTEAD. Yes. A liability.

Mr. SWEET. I am referring now to the balance sheet which shows the total indebtedness, including receiver's certificates, of $45,448,948.15.

Senator DIETERICH. But there is interest on that. How can you separate that, when you say there is $30,000,000 worth of interest, and say that that is the total indebtedness?

Mr. SWEET. The interest is $30,290,000 in addition to the figure I have given you.

Senator DIETERICH. Yes.

Mr. SWEET. If you add them together you get something in excess of $75,000,000.

Senator DIETERICH. Oh, you get something in excess of $80,000,000, do you not? Or is it $75,000,000?

Mr. SWEET. $75,700,000-odd.

Senator DIETERICH. Yes. And that is the indebtedness?

Mr. SWEET. Including the interest; yes.

Senator DIETERICH. Yes; including the interest.

Mr. SWEET. Yes.

Senator DIETERICH. You consider interest indebtedness, do you not?

Mr. SWEET. Yes.

Senator DIETERICH. Yes. And what did you say the valuation for rate-making purposes was in 1917?

Mr. SWEET. I gave you the figure of about $45,400,000.

Senator DIETERICH. There is no question but what that would show insolvency, is there?

Mr. SWEET. It looks as if the road is in pretty bad financial condition.

Senator DIETERICH. Yes; and it looks like the matter is to be determined in court. It looks like the holders of this indebtedness have the right to go to court and have their rights determined.

Senator SHIPSTEAD. They have been there for some time, have they not?

Mr. SWEET. Thirteen years.

Senator DIETERICH. And the road has not paid off any of this indebtedness except with the loan that they got to pay off the interest on one of the prior liens?

Mr. SWEET. All this indebtedness is still outstanding.

Senator DIETERICH. Still accumulating?

Mr. SWEET. Yes.

Senator SHIPSTEAD. There are many other roads in bad financial condition, are there not?

Mr. SWEET. Oh, yes.

Senator DIETERICH. Are we investigating other roads, too?

Senator SHIPSTEAD. It is not unusual at the present time for railroads to be in bad financial condition.

Mr. SWEET. A little while ago I stated that that figure of thirty-million-and-odd dollars was the interest matured and unpaid on bonds. It includes some other items besides bond interest.

Senator DIETERICH. There is in addition to the bonded indebtedness some $30,000,000 of interest?

Mr. SWEET. I said that including the $30,000,000 the figure would be larger.

Senator DIETERICH. There is, in addition to the principal sum, $30,000,000 plus in additional obligations of the road?

Mr. SWEET. Yes.

Senator DIETERICH. The chairman says that that is not an unusual condition. There are some roads that are in a little better financial condition than that, are there not?

Senator SHIPSTEAD. Oh, that is admitted.

Mr. SWEET. There are roads in much better condition than that.

Senator DIETERICH. Yes.

Senator SHIPSTEAD. Do you know, Mr. Sweet, if the Reconstruction Finance Corporation has taken any action on this application since it was filed?

Mr. SWEET. None that I know of. The loan cannot be made by the Reconstruction Finance Corporation until it has been approved by the Interstate Commerce Commission.

Senator SHIPSTEAD. This figure of $7,200,000 plus that is to be loaned if this application shall be granted by everyone who has authority to grant it, of equipment-trust certificates, is that in your opinion, so far as you know, the maximum sum which the Associated Railways Co. intends to pay for the Minneapolis & St. Louis Railroad Co., including its equipment and its motive power, material and supplies, cash on hand, and bills receivable?

Mr. SWEET. Yes; that is my understanding. And in that connection I should like to quote for you just what the application says in reference to that.

Senator SHIPSTEAD. Very well.

Mr. SWEET. At page 8 of the application it is stated:

> The maximum cost to Associated for said Minneapolis & St. Louis Railways and other properties offered for sale under said decree of court will be $7,200,000 plus whatever sum may then be required to discharge existing equipment-trust certificates of said Minneapolis & St. Louis Railroad Co. and its receivers.

In the same application, at page 9, it is stated:

> Associated proposes to dispose of to best advantage and as rapidly as possible the materials and other property (including right of way and other lands)

recoverable from the lines of railway sought to be abandoned herein; likewise, to dispose of all equipment, rolling stock, all materials, and supplies, whether in store account or distributed, and all miscellaneous assets. The net proceeds arising from the disposition of all such property, including salvage from lines abandoned (except salvage on the line Marietta, Minn., to Watertown, S. Dak.) will be paid over directly by Associated to the Reconstruction Finance Corporation in payment and reduction pro tanto of principal of the bonds issued by the Associated against the property conveyed to each of the carriers subscribing to the common stock of Associated as listed in the following paragraph (h) hereof, and each of said carriers listed in the following paragraph (h) hereof will be credited with such payment on account of the principal of said bonds issued against the property conveyed to it and on account of any guaranty executed by it, with one-fifth of the amount so paid.

Senator DIETERICH. Pardon me. If this application shall be granted, then when this $7,000,000 is paid it will first be subjected to taking up the prior liens? Possibly first it will be used to pay the expenses of the receivership and the court expenses? Is that correct?

Mr. SWEET. Yes.

Senator DIETERICH. And then it will be distributed along the line as the priority exists among them?

Mr. SWEET. Yes.

Senator DIETERICH. Yes. And that will not reach very much of those $44,000,000 and the $30,000,000 interest, will it?

Mr. SWEET. I should say a very small part.

Senator DIETERICH. That would almost be a loss. What I am getting at is this. I do not know whether you are authorized to answer this question, and to speak for your Commission. It may be that I am asking you to speak on a subject which might be embarrassing, and if it is, you need not answer.

If your Commission has determined that the physical valuation for rate-making purposes is some $45,000,000, and the court should put this property up for sale, and if Senator Benson and I should appear and say that we should bid, let us say conservatively, one-third of that amount, or $15,000,000 for it, we would not have any trouble, would we, in getting approval of a loan in that amount from the Commission?

Mr. SWEET. Well really, Senator, that is a question that would have to be pretty thoroughly investigated. I would rather not answer it.

Senator DIETERICH. That would be a reasonable request for us to make, would it not? If the physical value of the road for rate-making purposes was $45,000,000, and the earning capacity of the railroad was such as to justify us in deciding to buy the road, and if the physical value of the property was $45,000,000, we having good reputations—not being strong, perhaps, financially, but inclined to be honest and sincere in the operation of railroads, and having good judgment in employing those people who are competent to go ahead and operate the railroad, if we were to show all that to the Commission we would not have any trouble in getting a loan, a little loan, say of $15,000,000 to buy and operate the railroad?

Mr. SWEET. I would say there were proper physical assets there to warrant a loan of $15,000,000, but the Commission would have to be assured that the earnings also would carry an obligation of that kind.

Senator DIETERICH. Yes. That is the main thing, is it not? You would have to be assured that the earnings of this road would meet the overhead and retire the obligation as it came due, and to pay the interest on the obligation?

Mr. SWEET. Either retire it or assure credit which would enable the carrier to take care of it.

Senator DIETERICH. Yes; either to retire it or to assure sufficient credit so the carrier could take care of it. But your idea in making this loan for the Government would be that you would want to be able to see far enough ahead to know that the earning capacity of this railroad would be such as to enable it to meet its operating expenses and its interest payments on the loan, and to have reasonable assurance that it would increase the value of its property so as to keep it a good security, so as to be able to meet the obligations as they came due? You would want to know that, would you not?

Mr. SWEET. Yes.

Senator DIETERICH. Then if the court would agree to sell this road for $7,000,000 you could not stop the court from doing that, could you?

Mr. SWEET. Oh, no. The court could do as it pleases about that, I suppose.

I had not quite completed the answer that I wished to give.

Senator DIETERICH. Well, the sale has not yet been made, has it?

Mr. SWEET. No.

Senator DIETERICH. The sale has not been made yet?

Mr. SWEET. No; it has not.

Senator DIETERICH. And the court may not make that sale at all?

Mr. SWEET. I suppose that is a possibility.

Senator DIETERICH. Yes; that is a possibility.

Mr. SWEET. It has postponed foreclosure sales, as I understand it, several times in this case.

Senator DIETERICH. For lack of bidders; is that not right?

Mr. SWEET. I think that has been a reason. And perhaps because there was not what appeared to be an equitable plan.

Senator DIETERICH. Yes. And all the time this indebtedness has accumulated, and there is no way to wipe it out except in a court proceeding, is there? There is no way to foreclose those people from asserting their right in the money which they have invested except in a court proceeding?

Mr. SWEET. That is right.

Senator DIETERICH. A court proceeding, where they have due notice, and they can be heard, and the road is put up at public auction, and everyone has an opportunity to bid. So that we can understand the matter right, let me ask you this question: All these matters are preliminary investigations which you are making on the supposition that the court will put up the road for sale, and that the people who are making this application will be the highest bidders. Your Commission may pass on all this, and the Reconstruction Finance Corporation may commit itself, and then Senator Benson and I may come in there on the date of sale and bid $8,000,000, and then the whole thing would be thrown into the sack, would it not?

Mr. SWEET. If you were the highest bidders.

Senator DIETERICH. If we were the highest bidders. If the other parties were going to bid only $7,000,000, and we were to come in and bid $8,000,000, the whole thing would be thrown into the waste-basket, would it not?

Mr. SWEET. If your bid was accepted, and the court confirmed the sale, that is true.

Senator DIETERICH. All your hearings would be thrown away, and you would have to turn your attention to Senator Benson and to me and give your thoughts to what kind of a railroad it would be thereafter, and how we would operate it.

Senator SHIPSTEAD. It seems to me that it all depends on whether you and Senator Benson have $8,000,000. I hope you have.

Senator DIETERICH. I am not much of a railroad operator, but if there is a value of $45,000,000 there you and I might become interested, and you and I might want to operate the railroad.

Senator SHIPSTEAD. I am very much interested in the question before us.

Will you finish the answer, Mr. Sweet?

Mr. SWEET. On page 10 of the application it is stated:

> The net proceeds of salvage realized from the abandonment of the line between Marietta, Minn., and Watertown, S. Dak., will be paid by the Great Northern Railway Co. directly to the Reconstruction Finance Corporation in reduction of the principal of the bonds of the Associated issued against the property conveyed to said Great Northern Railway Co.

On page 18 of the application it is stated:

> The amount of salvage expected to be realized from the lines proposed for abandonment, such as rail, track materials, lands and buildings, stock of material, miscellaneous assets, and all the equipment of the Minneapolis & St. Louis Railroad is estimated at about $2,000,000. Much of the present equipment of the Minneapolis & St. Louis Railroad will be sold and this item represents a substantial part of the amount expected to be realized from salvage. The other principal item of salvage will be rail, most, if not all, of which will be sold for scrap.

On pages 401 to 405 of the transcript, Mr. W. F. Peter, attorney for Associated Railways Co., explains how the purchase price of the property will be applied. According to his statement, the $7,200,000 plus equipment-trust certificates is the total maximum sum which Associated intends to pay for the M. & St. L. properties.

Senator SHIPSTEAD. $7,200,000 is the purchase price?

Mr. SWEET. Yes; and to assume the equipment obligations.

Senator SHIPSTEAD. Can you tell us what is the amount of the M. & St. L. investment in road and equipment?

Mr. SWEET. The balance sheet referred to (p. 11 of the return to the abandonment questionnaire) shows investment in road and equipment as of July 31, 1935, $65,376,093.75. Accrued depreciation on the property is shown on page 12 of the return to the questionnaire as $5,292,595.56, leaving what you might call a net book investment in road and equipment of $60,083,498.12.

Senator SHIPSTEAD. You understand that under the terms of this application, if the Associated Railway Co. pays $7,200,000, they get the railroad, the equipment, roadbed, terminals, and bills receivable, cash in the treasury, all clear title, with the exception of the first mortgage of something like $900,000? What is that mortgage?

Mr. SWEET. $950,000.

Senator SHIPSTEAD. What is that mortgage? On what branch is that?

Mr. SWEET. That is on the Albert Lea line. Minneapolis-Hopkins.

Senator SHIPSTEAD. That will have to be taken care of in addition, will it?

Mr. SWEET. No.

Senator SHIPSTEAD. Is that provided for in the payment of the $7,200,000?

Mr. SWEET. Part of the $7,200,000 is to be used to pay that off.

Senator SHIPSTEAD. Oh, part of the $7,200,000 is to be paid on that mortgage too?

Mr. SWEET. That is right.

Senator SHIPSTEAD. Do you mean to say that under this application, that for $7,200,000 they get all of the railroad and all of the properties connected with the railroad clear of all obligations?

Mr. SWEET. Yes; except the equipment-trust obligations.

Senator SHIPSTEAD. And did you state for the record what they were?

Mr. SWEET. Yes; I did. They amount to $897,897.36, as of the 31st of last July.

Senator SHIPSTEAD. Then this mortgage of $950,000 will be paid out of the $7,200,000?

Mr. SWEET. That is the way it has been explained; yes.

Senator DIETERICH. Mr. Witness, since this road has been operating under the receiver, have you any information as to what the cost of operation has been and what the revenue derived from the road is?

Mr. SWEET. I have not any detailed information as to that, but I think the——

Senator DIETERICH. Well, the court records would disclose that, would they not?

Mr. SWEET. The Commission has the reports of the receivers, which show what its revenues and expenses have been all the time during the receivership.

Senator DIETERICH. Can you give us that, please?

Mr. SWEET. I do not have those figures with me. They are embodied in the annual reports to the Commission.

Senator DIETERICH. Can you get those reports for me?

Mr. SWEET. Maybe we have those figures here. Mr. Boles will look them up. Possibly we have the figures here.

Senator SHIPSTEAD. Pardon me, Senator Dieterich. The next witness that we propose to put on this afternoon will cover all of that. Would it be all right, in order to save time, if we were to go ahead with the witness?

Senator DIETERICH. Anything that is agreeable to the chairman.

Senator SHIPSTEAD. We can get that information. I am going to put the auditor on the stand, and he will go through all that history. If it does not interfere with what the Senator has in mind, we can save a little time by that procedure.

Senator DIETERICH. I do not want to delay anything. Just withdraw my request made of this witness.

Senator SHIPSTEAD. If that is agreeable to the Senator.

Senator DIETERICH. That is agreeable with me, perfectly agreeable, because it is a matter that I assume would be a matter of court record in the reports of the receiver.

Senator SHIPSTEAD. Yes.

Senator DIETERICH. Have you got it there, Mr. Witness?

Mr. SWEET. I have here the statement of the revenues and expenses of the receivers for the years 1930, 1931, and 1932.

Senator DIETERICH. That might be interesting.

Mr. SWEET. Which I can give you if you desire to have it.

Senator DIETERICH. Yes; let us have that. That might be interesting.

Mr. SWEET. And also it covers the years 1933 and 1934 and 7 months in 1935.

Senator DIETERICH. Proceed.

Mr. SWEET. In 1930 the railway operating revenues of the receivers amounted to $12,725,671.

Senator SHIPSTEAD. That is in 1930?

Mr. SWEET. Yes; in 1930. In that year the railway operating expenses were $10,827,661.

Senator DIETERICH. That was the railway operating expenses. That did not include any interest?

Mr. SWEET. No.

Senator DIETERICH. Nor it did not include any of the expenses of the court proceedings or the receivership?

Mr. SWEET. Nor it did not include any taxes or uncollectible revenues. The tax accruals that year were $751,538.

Senator DIETERICH. What else does your record show as to obligations that were not met?

Mr. SWEET. These were met, but there were other obligations. Uncollectible revenue was $4,763. Deducting those from the revenues, along with the operating expenses, left what is called in a railroad an operating income that year of $1,141,709. If you take into consideration deductions that must be made for hiring freight cars and rent of passenger cars and interest on funded debt and amortization of discount on funded debt and some other items which are called deductions from gross income, the receivers that year had a deficit of $1,690,844.

Senator DIETERICH. That was the deficit that year?

Mr. SWEET. Yes.

Senator DIETERICH. Now let us see the next year.

Senator SHIPSTEAD. That included the interest on the funded debt?

Mr. SWEET. Yes.

Senator DIETERICH. What do you mean, the funded debt?

Mr. SWEET. The bonds and the long-term debt. That would include interest on any long-term debt.

Senator DIETERICH. The next year?

Mr. SWEET. In 1931 the operating revenues declined to $10,294,963. The expenses that year were $9,297,810. In addition to the expenses, there were accruals of $534,619. If you take into consideration the bills of the road for hiring cars and for interest on funded debt and interest on unfunded debt also, and you deduct this from the income, you have a deficit in 1931 of $2,963,321.

In 1932 the revenues declined further to $7,854,701.

Senator DIETERICH. Mr. Witness, let me get clear this funded-debt proposition. Does this funded debt include the $44,000,000?

Mr. SWEET. Yes.

Senator DIETERICH. What do they draw as interest?

Mr. SWEET. Different rates. I do not have here the details of that. Perhaps I could get it for you by digging into the record a little further, but I have not looked it up.

Senator DIETERICH. If they pay 3 percent, that indebtedness alone would draw over a million dollars, or about $1,200,000?

Mr. SWEET. Yes.

Senator DIETERICH. Go ahead. I do not want to interrupt you. You are sure that that is included in what you call funded debt?

Mr. SWEET. Yes. The interest on the bonds is included; they are funded debt.

Senator DIETERICH. All right.

Mr. SWEET. In 1932 the railway operating revenues were $7,854,701. In that year operating expenses were $7,444,038.

Senator DIETERICH. Do you mean the operating expenses that year were more than the revenues?

Mr. SWEET. No; they were less than the revenues.

Senator DIETERICH. By how much?

Mr. SWEET. By $410,000.

Senator DIETERICH. I see.

Mr. SWEET. Taxes that year amounted to $516,680. When you take out your taxes and your rents for cars and equipment and your interest on funded debt, and other items that are deducted—there are quite a few of them here that I have not mentioned that are included—the deficit for 1932 amounted to $3,410,486.

Senator SHIPSTEAD. That was the low point of earnings of the road, was it not?

Mr. SWEET. That is the largest deficit of which we have any record here.

Senator SHIPSTEAD. The low point in the operating revenues also?

Mr. SWEET. No; the operating revenues were lower in 1933 and 1934 than they were in 1932.

Senator SHIPSTEAD. Those are the years that were hard on the railroads in the West?

Mr. SWEET. Yes.

Senator SHIPSTEAD. Due to the drought and the depression?

Mr. SWEET. Yes; 1932, 1933, and 1934 were the worst years, I think, we had.

Senator SHIPSTEAD. There were other railroads that had deficits in those years, too, were there not?

Mr. SWEET. Yes; a good many railroads.

Senator DIETERICH. You finished 1931, did you not?

Mr. SWEET. Yes; I finished 1931 and 1932.

Senator DIETERICH. What was the deficit in 1932?

Mr. SWEET. $3,410,486.

Senator DIETERICH. Give us the 1933 items of revenue, and so forth, as you gave in the other years.

Mr. SWEET. All right. In 1933 operating revenues were $7,673,398; operating expenses, $6,747,285. And the taxes that year were reduced to $365,071. If you make the other deductions for rents—that is, joint facility rents and car rents and car hire and interest on funded debt and on unfunded debt and the other deductions—you have a deficit in 1933 of $2,745,625.

Senator SHIPSTEAD. Do these deficits include the interest on the funded debt that should have been paid during these years?

Mr. SWEET. Yes; and on the unfunded debt, too.

Senator SHIPSTEAD. And also on the unfunded debt. Is that the greatest part of the deficit?

Mr. SWEET. Well, in 1933, for example, the interest on both funded and unfunded debt amounted to a little over $3,000,000.

Senator SHIPSTEAD. And what was the deficit?

Mr. SWEET. $2,745,625.

Senator SHIPSTEAD. They must have paid some interest, then, even in that year. Did you say the interest was over $3,000,000?

Mr. SWEET. The interest was a little over $3,000,000.

Senator SHIPSTEAD. And the deficit was how much?

Mr. SWEET. $2,745,625.

Senator SHIPSTEAD. It had a profit in its operating income from the operation of the road then, did it?

Mr. SWEET. Well, the so-called operating income was $559,232. That is the difference between the revenues——

Senator DIETERICH (interposing). Taxes are not deducted from that, are they?

Mr. SWEET. Yes; taxes have been deducted in getting at that figure.

Senator SHIPSTEAD. Was there any net operating income that year?

Mr. SWEET. No. Well, there would be a little; yes. It is very close. I have not added up the figures, but if you deduct the rents that you are entitled to deduct, and the taxes in getting at the figure of net railway-operating income, it is just about a toss-up. I have not computed it exactly.

Senator SHIPSTEAD. But the road had other income?

Mr. SWEET. Yes; it had nonoperating income that year that amounted to $193,000.

In 1934 the operating revenue was the lowest it has been in any of these years, as indicated by this exhibit—$7,514,180. The expenses that year—that is, operating expenses—$6,823,401; taxes a little lower than the year before—$337,863. Then if you deduct your joint-facility rents and rents for cars and equipment, and deduct also the accrued interest on funded and unfunded debt, you have in 1934 a deficit in net income of $2,943,072.

Would you like the figures for the first 7 months of the year 1935?

Senator SHIPSTEAD. I think the Senator asked for all of them.

Mr. SWEET. For the first 7 months of 1935 the railway operating revenues were $3,891,239. Operating expenses for the 7 months were $3,861,220.

Senator DIETERICH. Give us those two figures again.

Mr. SWEET. Revenues, $3,891,239; operating expenses, $3,861,220.

Senator DIETERICH. Just about made operating expenses.

Mr. SWEET. The operating revenues for the 7 months exceeded operating expenses for the 7 months by $30,019.

Senator DIETERICH. What were the taxes?

Mr. SWEET. Taxes were $155,361.

Senator DIETERICH. That is apportioned to the months?

Mr. SWEET. That is accrued for the 7 months.

Senator DIETERICH. Yes.

Mr. SWEET. And then there were uncollectible revenues during the 7 months of $3,818. Which gave a railway-operating deficit for the 7 months of $129,160.

If you go on for the 7 months and deduct passenger-car rents, hire of freight cars and deduct joint-facility rents and the other items besides interest on funded and unfunded debt, taking in, of course, in all these cases, the small amount of nonoperating income, the deficit for the first 7 months of 1935 becomes $2,032,877. Some railroads do better in the latter part of the year than they do in the early part of the year. I do not know what the record shows as to the experience of the Minneapolis & St. Louis Railroad in that regard, but railroads usually, which depend largely on the movement of grain and livestock, do better in the latter part of the year.

Senator SHIPSTEAD. I want to ask you again, Mr. Sweet, to clear up something that is not clear in my mind. Have you stated that the Merriam Junction-Albert Lea bonds of some nine hundred dollars would be paid out of the $7,200,000?

Mr. SWEET. That is the statement made by Mr. Peter at the time of the hearing at Minneapolis.

Senator SHIPSTEAD. I have here what is supposed to be a statement made by Mr. Peter. It is taken from the transcript of the record on page 408. Mr. Peter makes the following statement. By the way, who is Mr. Peter?

Mr. SWEET. Mr. Peter is one of the attorneys for the Chicago, Rock Island & Pacific Railroad and for its trustees, and he is one of the attorneys assigned to this case to represent the Associated Railways.

Senator SHIPSTEAD. I find on page 408 of the transcript this statement:

> None of the money that is paid in at the foreclosure sale by the successful bidder, whether it will be the Associated or anybody else, will go to the Merriam Junction-Albert Lea mortgage, not a penny of it. That will have to be assumed by the purchaser.

Now Mr. Peter's answers to questions by other attorneys on pages 404 and 408 of the transcript shows that the property will be taken free of all liens, except the lien of the Merriam Junction-Albert Lea mortgage.

Senator DIETERICH. What does the petition show? Does it show that they assume any of this indebtedness in addition to this consideration?

Senator SHIPSTEAD. I am asking him.

Mr. SWEET. The way we interpret that, Senator Shipstead, is that the $7,000,000——

Senator SHIPSTEAD. Do you agree with Mr. Peter's statement?

Mr. SWEET. As we interpret Mr. Peter's statement——

Senator SHIPSTEAD. I should like to have that statement explained.

Mr. SWEET. As we interpret his statement it means that the purchaser will be entitled to pay the Albert Lea mortgage out of the $7,200,000.

Senator DIETERICH. That is, the Associated Railways Co. does not give the seven million dollars plus and assume that indebtedness?

Senator SHIPSTEAD. I have the record here. We can clear this up. Here is a statement by Mr. Peter. First there is a statement by Mr. Swanstrom. Who is Mr. Swanstrom?

Mr. SWEET. Mr. Boles advises me that he was the attorney in the hearing for the Northwestern Mutual Life Insurance Co. of Milwaukee.

Senator DIETERICH. What is the document from which the chairman is reading?

Senator SHIPSTEAD. This is the reporter's minutes of the hearing before the Interstate Commerce Commission. We will just clear this up. Mr. Swanstrom said:

> Now, I am not interested in the mechanics, but I wanted to get this thing straight, because Mr. Ferry is basing his position upon the thought that they will be paid 100 cents on the dollar, particularly where we have a situation where only one mortgage is a lien upon all of the property, the division of mortgages being first liens upon various segments of the property. Now, under the decree as it stands, it will have to be sold subject to that mortgage, and then you come in and bid $7,200,000.

Then Mr. Peter said:

> We won't. The first thing we do is to take the $7,200,000 and subtract the amount due under the Merriam Junction-Albert Lea mortgage. We subtract that among the very first things we do subtract. We know that is a definite sum.

So they do not intend to bid $7,200,000, but they are asking for a loan of $7,200,000 and pay the mortgage out of the $7,200,000.

Senator DIETERICH. I do not so understand it, Mr. Chairman. I understand that that is what their bid is, and they pay off that indebtedness. That is an obligation that is paid off in the $7,000,000. And of course if they control that indebtedness they can go ahead and make a deduction of that in the purchase price. Is that your understanding, Mr. Witness?

Mr. SWEET. No; our understanding is, as I stated, that the purchaser will bid only $7,200,000 and take the property subject only to equipment liens, and that as to the $950,000 of Albert Lea mortgage, the purchaser will be entitled to deduct $900,000.

Senator DIETERICH. He will either be required to acquire the mortgage and take it as a part of his consideration or let the receiver pay the mortgage? That is correct, is it not?

Mr. SWEET. No; not in addition to that.

Senator DIETERICH. I say not in addition to that. I say if he pays the full consideration, then the receiver will have to satisfy the mortgage?

Mr. SWEET. Yes.

Senator DIETERICH. Yes; and give him the property clear of the mortgage, or if the bidder acquires the mortgage and it is a prior lien, then he can figure that in as a deduction from his consideration?

Mr. SWEET. Yes.

Senator DIETERICH. And assume the lien?

Mr. SWEET. Yes.

Senator SHIPSTEAD. It will all come out of the $7,200,000?

Mr. SWEET. Yes.

Senator SHIPSTEAD. And then they will get all of this property for $7,200,000?

Mr. SWEET. And equipment obligations.

Senator SHIPSTEAD. You are familiar with this Associated Railways Co. petition, and the lines that are involved here. If the abandonments are allowed, what stations in Minnesota will be without rail service of any kind, and you might go on through. Will you give us the stations in the various States that will be without railroad service? Can you give them to me for Minnesota?

Mr. SWEET. Yes.

Senator DIETERICH. That is excluding the lines that the receivers ask to abandon?

Mr. SWEET. This is the Associated Railways proposal.

Senator DIETERICH. Yes.

Mr. SWEET. The map which is opposite page 45 in the application shows that there will be seven stations abandoned in Minnesota. These are Excelsior, Victoria, Waconia, Young America, Echols, Twin Lakes, and Emmons.

Senator SHIPSTEAD. Which is the largest town? Do you know that?

Mr. SWEET. Maybe we can find that for you.

Senator SHIPSTEAD. Can you tell us how many industries now dependent upon the M. & St. L for service will be deprived of service?

Mr. SWEET. That has not yet been developed.

Senator DIETERICH. Mr. Witness, those abandonments are all subject to the approval of your Commission, are they not?

Mr. SWEET. We expect in the hearings that are to follow that all those facts will be developed.

Senator DIETERICH. Yes. The question of whether you will permit the abandonments or not permit them is all a matter with your Commission, is it not?

Mr. SWEET. Yes. And the facts as to what stations are to be left without service, and their population, and what industries are there, and how they would be affected, is a part of the record that would be made ordinarily and will be made in this case.

Senator DIETERICH. By your Commission?

Mr. SWEET. In the hearings that we are to hold if we proceed as contemplated.

Senator SHIPSTEAD. Can you tell us how many communities or stations or cities in Iowa will be deprived of railroad service if this application goes through?

Mr. SWEET. The map to which I just referred shows that in Iowa there will be 25 stations.

Senator DIETERICH. Mr. Witness, that does not include the abandonments authorized now?

Mr. SWEET. This is the proposition made by Associated Railways in this proceeding.

Senator DIETERICH. And it does not include the abandonments that are authorized now?

Mr. SWEET. It may include a few stations where there is a duplication.

Senator DIETERICH. You have testified that the receivers have asked for abandonments of 36.3 miles on one line, 13.6 on another, 36.9 on another, 8.5 on another, and so forth. Do the stations you are referring to include stations along those abandonments that have already been asked for and made by the receivers?

Mr. SWEET. I have not checked that information.

Senator DIETERICH. Would you think that that information, if it is pertinent at all and proper, should be in the record? If those lines have already been abandoned, the stations are now without the service.

Senator SHIPSTEAD. Mr. Sweet, if you do not have that information now, can you get for the committee the number of towns and industries that will be deprived of service under the application of the receiver? You have the number of stations in Iowa which will be deprived of rail service.

Mr. SWEET. I have that information in answer to this question here, Senator.

Senator SHIPSTEAD. All right. Thank you.

Mr. SWEET. This map shows that 25, according to the Associated plan, are to be abandoned or are to be left without service, and those stations are Langdon, Truesdale——

Senator DIETERICH. Do those 25 include those abandoned by the receiver?

Mr. SWEET. I will explain that in this answer.

Senator DIETERICH. All right.

Mr. SWEET. Those stations are Langdon, Truesdale, Calendar, Leland, Stilson, Hanna, Arnold, Dakota City, Badger, Kalo Junction, Otho, Burnside, Pilot Mound, Wolf, Berkeley, Van Cleve, Laurel, Murphy, Killduff, Sully, Lynnville Junction, Lynnville, Taintor, Jacobs, and Ewart. Six of these stations, however, namely, Truesdale, Burnside, Pilot Mound, Wolf, Jacobs, and Ewart are on lines which the M. & St. L. has already been authorized to abandon. This would leave 19 to be left without service by the proposed abandonment. (See pp. 18 to 20, inclusive, of return to abandonment questionnaire for population of these stations.) I am unable to answer as to industries, as this information has not yet been developed of record.

Senator DIETERICH. That means stations that are now maintained. You do not know what the effect of the abandonment of the service will be, nor what the transportation facilities are?

Mr. SWEET. Well, the record has not been developed.

Senator DIETERICH. You mean to say that none of those stations are connected with any other railroad?

Mr. SWEET. I did not say that. Yes; they——

Senator DIETERICH. Well, that was the question the chairman asked you, whether or not they would be left without any service at all.

Mr. SWEET. Yes; that is true. They will be left without any rail service.

Senator DIETERICH. What other transportation facilities have they?

Mr. SWEET. They probably have busses. To what extent we do not know yet. They maybe have trucks. I do not know to what extent yet. Those are matters that will be developed, of course.

Senator DIETERICH. That will all be taken into consideration when your Commission hears this; is that correct?

Mr. SWEET. Yes.

Senator SHIPSTEAD. Can you tell us how many industries will be affected? Have you got that information?

Mr. SWEET. No. I am unable to state as to the industries. The record has not been developed on that point.

Senator SHIPSTEAD. Can you tell us how many towns and communities in South Dakota will be deprived of railroad service if this application goes through?

Mr. SWEET. Yes.

Senator DIETERICH. Mr. Witness, you are going to take this all into consideration? You are going to hear this before the Commission; is that right?

Mr. SWEET. Yes.

Senator DIETERICH. Well, are we sitting as a board of review now as to what that Commission is going to do?

Senator SHIPSTEAD. I do not think we have anything to do with the Commission except get information.

Senator DIETERICH. It looks to me that we are inquiring into something that the Commission has already got under consideration and giving attention to.

Senator SHIPSTEAD. This committee has it under consideration; that is, so far as getting information is concerned. There is no intention to usurp the Commission's function.

Senator DIETERICH. It seems to me that until the Commission has had its hearing we are not going to get the information.

Senator SHIPSTEAD. It seems to me that we are getting a good deal of information now.

Will you answer the question, Mr. Sweet?

Mr. SWEET. There are 16 stations in South Dakota to be left without rail service according to the plan of the application.

Senator DIETERICH. How many stations in all?

Mr. SWEET. Sixteen, namely, Akaska, Lowry, Wecota, Brentford, Adelaid, Crandall, Crocker, Wallace, Gardner, Waverly, Troy, Strandburg, Revillo, Nahon, Stratford, and Randolph.

Senator DIETERICH. Mr. Witness, with regard to those stations in South Dakota—of course those names do not indicate to this committee anything of what the importance of them are, but your Commission will go into all those matters, will they not?

Mr. SWEET. Yes.

Senator DIETERICH. And the Interstate Commerce Commission will determine the importance of the station and determine the importance of the service, and determine the accommodation that the railroad gives to the population there, and the industries located where they use that railroad's service, and before you pass upon the abandonment you will take all those matters into consideration, will you not?

Mr. SWEET. Yes. I find that I have here, Senator, as a part of the abandonment application, a statement of the population of these different stations.

Senator SHIPSTEAD. Those affected by the abandonments?

Mr. SWEET. Yes; of the stations that I just named that are to be deprived of rail service.

Senator SHIPSTEAD. What is that?

Senator DIETERICH. Let us not go into that before lunch.

Senator SHIPSTEAD. What is the population?

73496—36——6

Senator DIETERICH. Might I suggest to the chairman that he let the witness file a statement showing the population of all these towns in question?

Senator SHIPSTEAD. We do not want them in detail. Can you give us their total population? There is no need of giving the population in detail.

Mr. SWEET. I have it stated here by stations only.

Senator SHIPSTEAD. Can you file it? You do not know what the total is?

Mr. SWEET. I can ascertain it.

Senator SHIPSTEAD. If it is not too much trouble we should like to have it.

Mr. SWEET. You have a question that will call for the total of the communities and all places that may be affected.

Senator DIETERICH. Will you file with the reporter, to be inserted in the record, a detailed statement of the population of those stations?

Mr. SWEET. Yes; I will do so.

Senator SHIPSTEAD. That information, when furnished by the witness, may be placed in the record at this point.

(The witness furnished for the record the information requested, which is here printed in the record in full, as follows:)

Name of station	*and population*
Minnesota:	
Excelsior	1,072
Victoria	240
Waconia	1,291
Young America	296
Echols	10
Twin Lakes	150
Emmons	292
Total	3,351
Iowa:	
Langdon	60
Truedale [1]	116
Callender	349
Leland	164
Stilson	90
Hanna	
Arnold	20
Dakota City	
Badger	254
Kalo Junction	125
Otho	300
Burnside [1]	82
Pilot Mound [1]	274
Wolf [1]	
Berkley	82
Van Cleve	70
Laurel	232
Murphy	
Killduff	90
Iowa—Continued.	
Sully	362
Lynville Junction	
Lynville	426
Taintor	75
Jacobs [1]	
Ewart [1]	100
Total	3,211
South Dakota:	
Akaska	169
Lowry	89
Wecota	25
Brentford	174
Adelaid	5
Crandall	50
Crocker	100
Wallace	189
Gardner	
Waverly	50
Troy	60
Strandburg	113
Revillo	274
Nahon	10
Stratford	202
Randolph	52
Total	1,563
Total for all stations	8,125

[1] On lines which receivers are authorized to abandon.

Population of stations in Iowa on lines which Associated Railways Co. proposes to abandon	3,211
Population of stations on lines which the receivers have been authorized to abandon and which are included in the lines which Associated Railways Co. proposes to abandon	572

Population of stations on lines in Iowa other than on lines already authorized to be abandoned	2,639
Population of stations on all lines which Associated Railways Co. proposes to abandon other than lines which the receivers have been authorized to abandon	7,553

Senator SHIPSTEAD. Are there any stations abandoned in the State of Illinois?

Mr. SWEET. No; there is no abandonment in Illinois at all.

Senator SHIPSTEAD. Illinois does not suffer any loss so far as service is concerned under this application?

Mr. SWEET. The proposal there is to transfer the Illinois lines to another railroad. You asked about the total.

Senator SHIPSTEAD. Yes.

Mr. SWEET. There is an exhibit attached to the application for abandonment which estimates the combined population of the stations and communities that are affected in Minnesota, Iowa, and South Dakota. That shows the total as 186,199.

Senator SHIPSTEAD. That are now receiving the service from the Minneapolis & St. Louis from these parts of the line that are to be abandoned?

Mr. SWEET. Yes.

Senator DIETERICH. That is the population in men, women, and children, is it not?

Mr. SWEET. That is the applicant's estimate of approximate population of the whole territory tributary to the various segments proposed to be abandoned.

Senator SHIPSTEAD. None in Illinois?

Mr. SWEET. No; none in Illinois.

Senator DIETERICH. Do you know whether or not that just includes the urban or the rural population?

Mr. SWEET. I understand both.

Senator DIETERICH. Both. And you do not know whether that population is near to any other facility of that kind or not? That does not give that information, does it?

Mr. SWEET. It is included in what is described in the abandonment application as the whole territory tributary to the various segments in question.

Senator DIETERICH. Mr. Witness, that matter is all before your Commission, is it not, for determination?

Mr. SWEET. Yes. That is in the abandonment application.

Senator DIETERICH. And your Commission has not determined whether they will permit the abandonment or not, have they?

Mr. SWEET. No. The proceedings are in their early stages.

Senator DIETERICH. And yours is the proper Commission to determine whether they will permit the abandonment, is it not?

Mr. SWEET. The Commission, under the law, has authority to consider and dispose of the applications.

Senator DIETERICH. Yes. And it is in your hands for determination, is it not?

Mr. SWEET. Yes.

Senator BENSON. And this is a proper committee for you to appear before and testify before, is it not?

Mr. SWEET. I assume so.

Senator BENSON. Yes.

Senator DIETERICH. At least when you are called in you are afraid to stay away, are you not?

Mr. SWEET. It is a pleasure to come.

Senator SHIPSTEAD. Thank you, Mr. Sweet. If there are no further questions of this witness, the subcommittee will stand adjourned until 2 o'clock this afternoon.

(Thereupon, at 12:20 p. m., a recess was taken until 2 p. m. the same day, Thursday, May 14, 1936.)

AFTER RECESS

The subcommittee reconvened at 2 p. m., at the expiration of the recess.

Senator SHIPSTEAD. I am going to have inserted in the record the application of the Associated Railways, pending before the Reconstruction Finance Corporation, for a loan of $7,200,000. I ask, Mr. Reporter, that that be inserted in the beginning of the record of this hearing, following my preliminary remarks.

Is Mr. George A. Anderson here?

Mr. ANDERSON. Yes, sir.

TESTIMONY OF GEORGE A. ANDERSON, GENERAL AUDITOR, MINNEAPOLIS & ST. LOUIS RAILROAD, MINNEAPOLIS, MINN.

(The witness was duly sworn by the chairman of the subcommittee.)

Senator SHIPSTEAD. Will you give for the purpose of the record your name, your address, and your occupation?

Mr. ANDERSON. My name is George A. Anderson. Do you want my home address?

Senator SHIPSTEAD. Yes.

Mr. ANDERSON. My home address is 4957 Russell Avenue, South Minneapolis, Minn. My position is that of general auditor of the Minneapolis & St. Louis Railroad, in charge of the accounting department of that railroad.

Senator SHIPSTEAD. You are in charge of its books, and you are familiar with the finances of the road and the books at the present time?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. How long have you been with the Minneapolis & St. Louis?

Mr. ANDERSON. Since 1906.

Senator SHIPSTEAD. Are you familiar with the history of the organization of the various companies that go to make up the Minneapolis & St. Louis and the finances and obligations that have been issued through the period of its history?

Mr. ANDERSON. Yes, sir; I believe so, in a general way. I do not have all the details.

Senator SHIPSTEAD. As I understand it, the company now in operation was formed out of about 13 different companies?

Mr. ANDERSON. There were—I couldn't say as to the exact number, but there were many of them.

Senator SHIPSTEAD. Do you know what the total amount is of obligations that have been issued and sold to the public, from the beginning of its history up to the present time?

Mr. ANDERSON. Do you have reference to the long-term debts?

Senator SHIPSTEAD. Yes.

Mr. ANDERSON. It is approximately $46,000,000.

Senator SHIPSTEAD. That is, of the present railroad?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. That of the various companies that issued from time to time from the beginning?

Mr. ANDERSON. No; I haven't that figure.

Mortgages of the various companies were retired through consolidation and bonds issued to the new company in exchange at the time of acquisition, so I couldn't say just what they amounted to.

Senator SHIPSTEAD. Do you know what the obligations are now?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. Will you give a short history or the background of your connection with the road?

Mr. ANDERSON. As I have just stated, I entered the service of the railroad in the accounting department in 1906, working up in that department through various positions to the position which I now hold and which I have occupied since April 1, 1935. In October 1918 I was appointed auditor of disbursements, reporting directly to the comptroller, and, from that time until March 1935, when the comptroller passed away, I held that position of auditor of disbursements and also acted in the capacity of assistant comptroller.

My appointment to the position of general auditor was to a position of the same capacity as that held by my predecessor, Mr. Smith, who was the comptroller.

Senator SHIPSTEAD. You have been with the road all the time from 1906?

Mr. ANDERSON. Constantly.

Senator SHIPSTEAD. When did the road go into receivership?

Mr. ANDERSON. July 26, 1933.

Senator SHIPSTEAD. Their funded debt then was about what it is now?

Mr. ANDERSON. That is correct.

Senator SHIPSTEAD. Is it exactly the same?

Mr. ANDERSON. Within, perhaps, a hundred or two hundred thousand dollars. I would say that it is approximately $46,000,000.

Senator DIETERICH. You say their funded debt is approximately the same now as it was then?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. In what year was that?

Mr. ANDERSON. 1923 as compared with the present time. I am speaking of the long-term debt.

Senator DIETERICH. Long-term debt?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. What do you consider debt?

Mr. ANDERSON. Bonds.

Senator DIETERICH. What constitutes the indebtedness of a bond? What is the value or the extent of the indebtedness of a bond?

Mr. ANDERSON. I do not believe I understand your question, sir.

Senator DIETERICH. I will try to make it plain so that you will. These bonds are written obligations, are they not?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. Signed by the proper authority, binding the railroad company to pay what?

Mr. ANDERSON. To pay the face value thereof on maturity.

Senator DIETERICH. What do you call fixed value?

Mr. ANDERSON. I said face value.

Senator DIETERICH. Is that all that it binds them to pay?

Mr. ANDERSON. Plus interest charges.

Senator DIETERICH. Oh, then those people who lend money do charge interest?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. Do you say that the indebtedness of the bonds is the same now as it was in 1923?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. Figuring interest?

Mr. ANDERSON. We are figuring interest; yes, sir. That is required in conformity with the accounting requirements of the Interstate Commerce Commission.

Senator DIETERICH. You have paid all the interest, then, on the bonds from 1923 to the present time?

Mr. ANDERSON. No, sir; I am speaking——

Senator DIETERICH (interposing). Do you not consider interest as indebtedness?

Mr. ANDERSON. It is so set up on the books, but not as long-term debt. The interest is set up as a current liability, or deferred liability, in the event of nonpayment.

Senator DIETERICH. Is it not a fact that these bonds read that they will pay the face value—indicating what that is, a thousand dollars, or ten thousand dollars—together with so much interest, or interest at the rate of so much per annum?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. Is not that payment of interest at the rate of so much per annum as much an obligation of that bond as the principal is?

Mr. ANDERSON. It is an obligation; yes, sir.

Senator DIETERICH. Of course, in my humble, nonexpert way, not talking so much about the technique of operating railroads such as you are connected with, I may ask questions that are really ridiculous from your point of view, so you must pardon me; but I was always taught down in the country, where I come from—I come from the country—that on a note that promised to pay a certain amount, together with interest, the interest was as much a part of the obligation as the principal. Do you understand that to be so, or does your company disregard interest and say that it is something not to be considered?

Mr. ANDERSON. I am speaking entirely as to the figures which appear on the records.

Senator DIETERICH. You are the man who makes these records, are you not?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. Well, I am talking to you, then, about your figures. Do you say that your company does not owe any more now than it did in 1923?

Mr. ANDERSON. I am speaking of accounting as we are required to make it in conformity with the rules.

Senator DIETERICH. That is the answer you want to give me?

Mr. ANDERSON. That is the answer.

Senator DIETERICH. That you on your oath now say—Was the witness sworn?

Senator SHIPSTEAD. Yes.

Senator DIETERICH. You say on your oath now that your company does not owe any more now than it did in 1923?

Mr. ANDERSON. I said funded debt, or long-term debt.

Senator DIETERICH. Well, I am asking what you consider funded debt. Do you consider interest as a part of that debt?

Mr. ANDERSON. No, sir.

Senator DIETERICH. You do not?

Mr. ANDERSON. No, sir.

Senator DIETERICH. Then you are going to operate without interest?

Mr. ANDERSON. No.

Senator DIETERICH. Do you now say as an expert accountant that in the matter of funded debt you do not include the interest?

Mr. ANDERSON. That is right.

Senator DIETERICH. Then that is no part of the debt obligation?

Mr. ANDERSON. It is no part of the funded debt obligation. Funded debt obligation——

Senator DIETERICH (interposing). Now, Mr. Expert, will you tell me how much more your company now owes than it did in 1923, in actual money, if it were to discharge its obligations?

Mr. ANDERSON. They owe in addition to the funded debt, to which I have testified, $46,000,000, approximately, round figures——

Senator DIETERICH (interposing). Yes.

Mr. ANDERSON (continuing). Approximately $31,000,000 in matured interest unpaid.

Senator DIETERICH. That is a part of the obligation, is it not?

Mr. ANDERSON. Well, the question that was asked me was about the long-term debt. These are accounted for as long-term debt on the books as we are required to keep them.

Senator SHIPSTEAD. The rules prescribed for your system of bookkeeping and accounting are those prescribed by the Interstate Commerce Commission, are they not?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. They do not require you to carry as funded debt the deferred interest or the interest that remains unpaid or is in default?

Mr. ANDERSON. That is correct.

Senator SHIPSTEAD. What do they call it? Current liability?

Mr. ANDERSON. Deferred liability.

Senator DIETERICH. Do you have any dictionary of any kind, or any work, of which I can get, wherein these terms "deferred liability" and "funded debt" are described in such a manner, so that

I may familiarize myself with them, and so that you and I may talk intelligently about them?

Senator BENSON. I imagine there are many Supreme Court decisions.

Senator DIETERICH. Can you give me a citation?

Senator BENSON. I cannot, but there are many decisions.

Senator DIETERICH. Anyway, you are talking now about the part of the obligation that is principal, and not interest?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. You disregard the interest?

Mr. ANDERSON. Yes, sir; in response to that question.

Senator DIETERICH. I guess the creditors might as well disregard the interest and the principal, too.

Mr. ANDERSON. Well, if I may make an offhand statement, this is based upon what I have heard from time to time in the performance of my duties: No attention has been paid to the matured interest unpaid in any calculations pertaining to reorganization; that is merely a bookkeeping figure and is not figured in whatever the ultimate windup may be in the reorganization of the railroad.

Senator DIETERICH. There is nothing in the obligation that says that that should be treated that way, is there? I am talking about the bonds. It is not so written in the bonds, is it?

Mr. ANDERSON. Not that I know of. I couldn't answer the question definitely.

Senator DIETERICH. You have read the bonds?

Mr. ANDERSON. I have, perhaps, from time to time in the past, but I don't recall now.

Senator SHIPSTEAD. Mr. Anderson, I asked you what the funded debt was in 1923.

Mr. ANDERSON. It was approximately $46,000,000.

Senator SHIPSTEAD. Then I asked you what it is now.

Mr. ANDERSON. It is approximately the same.

Senator SHIPSTEAD. You do not mean to infer that unpaid debt is an obligation of the railroad if it could be paid?

Mr. ANDERSON. That is right.

Senator SHIPSTEAD. But under your system of bookkeeping as prescribed by the Interstate Commerce Commission you do not regard the debt as unpaid?

Mr. ANDERSON. No.

Senator SHIPSTEAD. Was there a default in the equipment-trust obligations when it went into receivership?

Mr. ANDERSON. No, sir.

Senator DIETERICH. You say that when the road went into receivership it was not in default?

Mr. ANDERSON. I said that was my recollection; I am not really certain. There may have been a default in interest.

Senator DIETERICH. Can you imagine, then, why it was put under receivership?

Mr. ANDERSON. There were heavy interest payments coming due which they did not have the money to meet.

Senator DIETERICH. Oh, they were in default of their interest?

Mr. ANDERSON. If they were not at the time, they would be very shortly.

Senator DIETERICH. Do you not know, as a matter of fact, that they were placed under receivership because they were so far in default that they had not paid anything on their obligations and were in default on interest payments?

Mr. ANDERSON. My understanding is that they went into receivership because of the failure to pay accounts other than interest.

Senator SHIPSTEAD. What would they be for? Equipment?

Mr. ANDERSON. For labor, material, repairs to locomotives by the Minneapolis Steel Machinery Co.

Senator SHIPSTEAD. They were in distress, but they were not in default on bonds of the funded debt?

Mr. ANDERSON. That is my recollection.

Senator SHIPSTEAD. Or on any of the equipment trusts?

Mr. ANDERSON. There wasn't any default on equipment-trust obligations.

Senator SHIPSTEAD. Over a long period of time what has been the action of the management and directors in paying the funded debt of the Minneapolis & St. Louis? Have they been able to pay it for a number of years?

Mr. ANDERSON. Yes; they paid interest regularly.

Senator SHIPSTEAD. Do you know how much they paid over a period of 10, 11, or 12 years prior to the receivership?

Mr. ANDERSON. For a period of 11 years prior to the receivership it was approximately $21,000,000.

Senator SHIPSTEAD. That is, on the funded debt?

Mr. ANDERSON. On the funded debt and including the equipment-trust notes, of course.

Senator DIETERICH. From what date?

Mr. ANDERSON. Do you mean this 11-year period?

Senator DIETERICH. I am talking about over what period.

Mr. ANDERSON. A period of 11 years immediately preceding the receivership.

Senator DIETERICH. The receivership was in 1923?

Mr. ANDERSON. 1923; yes, sir.

Senator DIETERICH. Was that the time when the road was reorganized in its present form?

Mr. ANDERSON. That is the time it went into a receivership.

Senator DIETERICH. I am talking about the 11 years prior to the time when it went into receivership. Why do you fix a period of 11 years prior to that time? Was that when the road began to operate under its present name or its present incorporation?

Mr. ANDERSON. That was the time when the railroad was of the same mileage as it is at the present time, approximately.

Senator DIETERICH. Prior to that it had not been?

Mr. ANDERSON. I might say this——

Senator DIETERICH. I do not want you to say what you might say; you might say anything. If you know what you are saying, say it.

I am trying to get now, Mr. Anderson, what it is that makes you fix a period of 11 years prior to the time the road went into receivership. What is there that causes you to select a period that far back?

Mr. ANDERSON. It would not be fair to go beyond 11 years.

Senator DIETERICH. Is that a mystery number? Is "11" a mystery number with railroad men?

Mr. ANDERSON. No; it is not; but on January 1, 1912, the Minneapolis & St. Louis Railroad acquired by purchase the properties of the Iowa Central.

Senator DIETERICH. That is what I was trying to get at. Eleven years before that was when you began to operate these lines?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. From that time on until 1923, when you went into receivership, you paid on the funded debt something like $21,000,000?

Mr. ANDERSON. Yes, sir; and always paid interest on the funded debt.

Senator SHIPSTEAD. Yes; and always paid interest on the funded debt.

Can you tell us what the operating revenues were during that period?

Senator DIETERICH. Mr. Chairman, if you will pardon me, I want to get this in my mind.

You say, Mr. Anderson, that they were not in default on their interest at the time they went into receivership. Were you connected with the road at that time?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. In what capacity?

Mr. ANDERSON. As assistant to the comptroller.

Senator DIETERICH. As assistant to the comptroller?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. You say the obligations that brought them into receivership by reason of the default were obligations for labor and material?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. Have you any record of the outstanding obligations of your road at the time the petition for receivership was filed?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. Have you that with you?

Mr. ANDERSON. I can give you the——

Senator DIETERICH (interposing). I just want to know if you have any records with you.

Mr. ANDERSON. Oh, not the detailed records; no.

Senator DIETERICH. Have you copies of them?

Mr. ANDERSON. The information is available in the general offices.

Senator DIETERICH. I would assume that it would be available from the petition that was filed by those who had intervened and brought about the receivership, and I was wondering if you had that information or a memorandum that you have made in which you say there was no default on interest.

Mr. ANDERSON. I have a memorandum just adding up a few figures that show that when we went into receivership there was owing on current accounts payable $4,350,000.

Senator DIETERICH. Was there anything on interest?

Mr. ANDERSON. Nothing on interest.

Senator SHIPSTEAD. What percentage of the gross revenue during that period was paid——

Mr. ANDERSON (interposing). I believe you asked me a question that I did not answer. You asked what the total revenues were during that period.

Senator SHIPSTEAD. Yes.

Mr. ANDERSON. $137,000,000.

Senator SHIPSTEAD. What percentage of that was paid out in interest on the funded debt?

Mr. ANDERSON. Approximately 16 percent.

Senator SHIPSTEAD. What did you say were the current liabilities at the time the road went into receivership?

Mr. ANDERSON. $4,350,000.

Senator SHIPSTEAD. They were bills coming due, and the company did not have the money to pay them?

Mr. ANDERSON. I would say they were not only coming due but they were due.

Senator SHIPSTEAD. Is that what forced the road into receivership?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. They had bought materials and other things that they had not paid for?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. Do you have any personal knowledge of the condition of the road at the time it went into receivership?

Mr. ANDERSON. Only from a bookkeeping standpoint. Immediately after the receiver was appointed he sought to secure authority from the court to make some expenditures—so-called special or extraordinary maintenance expenditures—which the records show to have been necessary because of undermaintenance prior to receivership.

Senator SHIPSTEAD. Can you give us the exact date of the receivership?

Mr. ANDERSON. July 26, 1923.

Senator SHIPSTEAD. Was the interest payable annually or semiannually on this funded debt?

Mr. ANDERSON. On one mortgage, the refunding extension mortgage, the interest was payable quarterly; and on the other mortgages semiannually at various times.

Senator SHIPSTEAD. Semiannually at various times?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. Were any of them payable in June or July before you went into receivership, if you know?

Mr. ANDERSON. Yes, sir; there were some.

Senator DIETERICH. But they were paid? Those interest payments were made?

Mr. ANDERSON. Yes, sir; but the heavy interest payments fell due on March 1 and September 1; and the outlook at the time we went into receivership, or just previous to that, was that they would not be able to pay the interest falling due, and there was also interest falling due on August 1, for which they did not have the money to pay.

Senator SHIPSTEAD. But they had paid them up until July 1, up until the time of the receivership?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. Did they pay the interest on the $46,000,000 of funded debt?

Mr. ANDERSON. Yes, sir; as and when the interest fell due.

Senator SHIPSTEAD. Is it reasonable to assume that they took funds which should have been used to pay for current accounts and paid that money as interest on the funded debt?

Mr. ANDERSON. That is a fair statement; yes, sir.

Senator SHIPSTEAD. I find in the record that after the road went into receivership there were very heavy expenditures for maintenance. I think there was something like $5,000,000 spent for equipment; is that right?

Mr. ANDERSON. For maintenance of equipment?

Senator SHIPSTEAD. Maintenance and equipment, or was that for equipment only?

Mr. ANDERSON. No; that was for both maintenance-of-way and structures and equipment, and the amount was much greater than that.

Senator SHIPSTEAD. How much was it?

Mr. ANDERSON. In 1924 there was spent for maintenance of fixed property and equipment $6,888,000. That was in one year 1924. That is equal to approximately 45 percent of the total revenues for that year.

Senator SHIPSTEAD. What was the reason for that heavy expenditure in the year after you went into receivership?

Mr. ANDERSON. That, as I stated a few moments ago, was because of undermaintenance prior to the receivership. There was a special maintenance program authorized by the court amounting to some $832,000.

Senator SHIPSTEAD. What was the condition of the road at the time it went into receivership, as to maintenance and equipment?

Mr. ANDERSON. It appears from the records that the property was undermaintained.

Senator SHIPSTEAD. Undermaintained?

Mr. ANDERSON. Yes, sir.

Mr. SHIPSTEAD. What would be the reason for that?

Mr. ANDERSON. Well, I would say that in order to continue paying their interest charges, they took it out of the property.

Senator SHIPSTEAD. To pay interest on the funded debt?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. At the expense of the property?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. $6,000,000 spent in 1924 was spent for maintenance in one year, was it not?

Mr. ANDERSON. It was.

Senator SHIPSTEAD. In your opinion, was that made necessary because the road had not been properly maintained prior to the receivership?

Mr. ANDERSON. Yes, sir; not the entire amount, but the reason it was high was because of that.

Senator SHIPSTEAD. Have you any further comment to make on the amount shown to have been spent for the early years of the receivership?

Mr. ANDERSON. I have made a rough calculation of the maintenance expenditures for the first 3 years of receivership, starting with 1924, and I have compared them with the maintenance expenditures of the first 3 years prior to the receivership, including 1923, when the maintenance program had been established for that year, and for the 3 years following the appointment of the receiver the maintenance expenditures amounted to approximately 41 percent of the gross revenues, and for the 3 years prior to the receivership it was approximately 36 percent.

Senator SHIPSTEAD. For maintenance?

Mr. ANDERSON. Yes, sir; of the gross revenues. I am just speaking of the percentages derived. There was a difference of 5 percent.

Senator SHIPSTEAD. Was there a difference in the gross revenue during those years?

Mr. ANDERSON. Not a great amount.

Senator SHIPSTEAD. Not a great amount?

Mr. ANDERSON. No.

Senator SHIPSTEAD. Do you say that it took 36 percent for maintenance prior to receivership and 41 percent afterward?

Mr. ANDERSON. For those 3 years.

Senator SHIPSTEAD. Just prior to receivership?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. Then, in those 3 years, the road had done pretty well in building up its maintenance?

Mr. ANDERSON. They had spent for maintenance 36 percent of their gross revenue, but for the period starting the receivership and for the first 3 years of receivership it spent 41 percent.

Senator SHIPSTEAD. Oh, I had misunderstood you.

Mr. ANDERSON. It was an increase of 5 percent.

Senator SHIPSTEAD. In the 3 years prior to the receivership, what percentage was spent for maintenance?

Mr. ANDERSON. 36 percent.

Senator SHIPSTEAD. You claim that that was brought about by maintenance being below what it should have been?

Mr. ANDERSON. I do not say that they should have spent exactly the same amount that was spent after the appointment of the receiver, but the fact that it was necessary to spend more money, and there was a special order of the court for extraordinary maintenance, makes it appear on its face that there was undermaintenance prior to the receivership.

Senator DIETERICH. What was that extraordinary maintenance?

Mr. ANDERSON. They rebuilt 500 box cars, which cost them about $400,000. They laid 200,000 additional ties, and track, and there was some ballast work and some new water stations, and that was, substantially, the program.

Senator DIETERICH. Did the company do the work of rebuilding those box cars, or was that contracted to be done?

Mr. ANDERSON. We contracted for that.

Senator DIETERICH. You paid approximately $1,000 a car?

Mr. ANDERSON. My recollection of the exact figure is $394,000.

Senator DIETERICH. You did have shops where you did that type of work, did you not?

Mr. ANDERSON. Yes, sir; but not sufficient to——

Senator DIETERICH (interposing). What is the reason why you did not utilize your own shops to do that kind of work yourself?

Mr. ANDERSON. That is an operating matter; I could not answer that question. I presume it was more economical, perhaps, to hire it out, or perhaps they did not have the facilities to do the work.

Senator SHIPSTEAD. Have you any record of the income of the company during the receivership?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. From the beginning?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. Have you got it in statement form? Have you any copies?

Mr. ANDERSON. I have statements in condensed form, but it shows the entire operations.

Senator SHIPSTEAD. Have you copies of the statement for the Senators?

Mr. ANDERSON. I have four here.

Senator SHIPSTEAD. This is from 1924 to 1935. You do not have it beyond 1935? Do you not have it for last year?

Mr. ANDERSON. This is 1936 now. We have just the 3 months' operations.

Senator SHIPSTEAD. But have you any for 1935?

Mr. ANDERSON. Yes; that includes 1935.

Senator SHIPSTEAD. Oh, yes; I see.

Mr. ANDERSON. It covers the entire receivership period up to December 1935.

(The matter referred to is as follows:)

THE MINNEAPOLIS & ST. LOUIS RAILROAD CO., L. C. SPRAGUE AND JOHN JUNELL, CO-RECEIVERS

Statement showing income account of the receivers for the receivership period to Dec. 31, 1935, inclusive

	Railway operating revenues	Railway operating expenses	Net revenue from railway operations	Railway operating income
July 27, 1923, to Dec. 31, 1923, inclusive	$7,340,644.59	$5,959,682.38	$1,380,962.21	$1,023,662.75
1924	15,199,427.86	14,536,193.86	663,234.00	[1] 92,174.02
1925	15,077,671.16	13,217,625.16	1,860,046.00	1,090,534.86
1926	14,742,018.36	13,303,162.09	1,438,856.27	686,357.23
1927	14,402,775.93	12,819,979.08	1,582,796.85	824,751.62
1928	14,490,025.28	12,341,107.56	2,148,917.72	1,354,904.08
1929	14,704,227.83	11,844,885.08	2,859,342.75	2,065,504.78
1930	12,725,872.68	10,808,293.20	1,917,579.48	1,161,276.76
1931	10,297,506.64	9,271,945.98	1,025,560.06	473,083.10
1932	7,855,185.02	7,446,102.41	409,082.61	[1] 110,997.60
1933	7,672,936.27	6,742,320.95	930,615.32	563,835.94
1934	7,514,180.32	6,819,398.73	694,781.59	354,553.62
1935	7,610,887.38	6,762,907.33	847,980.05	552,991.38
Total	149,633,358.72	131,873,603.81	17,759,754.91	9,948,284.50

	Net railway operating income	Income available for fixed charges	Net income
July 27, 1923, to Dec. 31, 1923, inclusive	$624,501.36	$709,542.85	$652,738.81
1924	[1] 884,859.47	[1] 633,995.18	[1] 776,280.92
1925	355,452.23	389,214.91	220,623.13
1926	233,502.37	295,271.03	125,168.84
1927	151,283.88	217,823.50	18,131.20
1928	566,978.37	641,625.50	413,058.38
1929	1,731,601.26	1,664,718.05	1,111,874.74
1930	566,268.87	634,563.57	390,781.34
1931	125,824.23	153,352.83	[1] 110,481.00
1932	[1] 397,274.22	[1] 329,133.59	[1] 538,906.44
1933	286,308.97	325,248.79	155,050.13
1934	46,000.52	106,407.86	[1] 41,604.17
1935	101,500.80	170,175.35	39,983.61
Total	3,540,089.17	4,344,815.47	1,660,137.65

[1] Denotes red figures.

Senator SHIPSTEAD. That first figure at the top of the left-hand column, from July 27 to December 31, 1923, inclusive, is for the first half year of receivership?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. The year in which you had your largest revenue, according to this, was 1924?

Mr. ANDERSON. That is correct.

Senator SHIPSTEAD. Then you come down to the period of the depression in 1932, and it drops to $7,855,000.

In the second column you have the operating expenses?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. What is counted in the operating expenses?

Mr. ANDERSON. The cost of maintaining the roadway and structures, the cost of maintaining the equipment, the expense of the traffic department—the solicitation forces and the making of tariffs, and so on—the cost of conducting transportation, and the general overhead expenses, such as your office forces, and so on.

Senator SHIPSTEAD. What you would have left after you had paid that is what you call net revenue from railway operations?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. That is net revenue?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. He left out of there some items that occurred to me should go into operating expenses.

Will you give us those again, Mr. Anderson?

Mr. ANDERSON. The cost of maintaining roadway and structures, the cost of maintaining equipment, the cost of operating the traffic department——

Senator DIETERICH (interposing). What do you mean by "operating the traffic department"?

Mr. ANDERSON. The salaries and expenses of the solicitation forces and the maintenance of the tariff department to compile tariffs.

Senator DIETERICH. Does that include the salaries of all the employees of the road?

Mr. ANDERSON. All those in the traffic department. You are speaking of traffic expenses?

Senator DIETERICH. I am talking of operating expenses. I am talking about the items that go into operating expenses.

Mr. ANDERSON. Yes, sir. If you speak of operating expenses as a whole, all the salaries are in there.

Senator SHIPSTEAD. Including the receivers'?

Mr. ANDERSON. With the exception of those particular wages that may be incurred in addition-and-betterment work or property-improvement work. That is not in operating expense. That goes into capital-account charges. But all salaries and expenses incurred in the ordinary operation——

Senator DIETERICH (interposing). You say here "net revenue from railway operations"?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. What do you mean by that?

Mr. ANDERSON. That is the revenue remaining after payment of operating expenses.

Senator DIETERICH. That does not include those salaries and wages that are paid for betterment of the road?

Mr. ANDERSON. That is correct.

Senator DIETERICH. That does not include them?

Mr. ANDERSON. No, sir.

Senator DIETERICH. That does not include taxes?

Mr. ANDERSON. That is right.

Senator DIETERICH. That does not include interest?

Mr. ANDERSON. Right.

Senator DIETERICH. That does not include any expense made on any extension or renewal of that kind?

Mr. ANDERSON. That is correct.

Senator DIETERICH. Have you anything to show what that item was during those years?

Mr. ANDERSON. I have not all the details for those specific revenues.

Senator DIETERICH. How did you come to prepare this tabulation?

Mr. ANDERSON. This was prepared in exhibit form to be introduced at the hearing before the Interstate Commerce Commission.

Senator DIETERICH. Who directed the preparation of it?

Mr. ANDERSON. Counsel for the labor organizations.

Senator DIETERICH. Did you say that this was prepared to be introduced at the hearing before the Interstate Commerce Commission?

Mr. ANDERSON. Yes.

Senator DIETERICH. It was not prepared, then, for this hearing?

Mr. ANDERSON. No, sir; I had it available.

Senator DIETERICH. You were subpenaed to appear here, were you not?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. You were asked to bring the operating accounts of the railroad?

Mr. ANDERSON. Yes.

Senator DIETERICH. Will you let me finish my questioning of this witness, if you please, Mr. Chairman?

Senator SHIPSTEAD. Yes.

Senator DIETERICH. I will try to get myself satisfied, and then I will get out of the way here.

Do you know for what purpose this was prepared? What was the general purpose of its preparation?

Mr. ANDERSON. It was prepared to show in condensed form the results from operation by the receivers since the time the receivership began, up to and including December 1935.

Senator DIETERICH. It was prepared to show that the road was producing revenue sufficient to continue operation, was it not?

Mr. ANDERSON. I presume so; yes.

Senator DIETERICH. Why did you not show somewhere what the net income or the net earning of the road was after deducting the necessary expenses in this technical term "operating expenses"—the necessary expenses including the labor, the items for material, such as those where there were necessary additions, necessary improvements, and necessary repairs to be made?

Mr. ANDERSON. All those items which you have mentioned are entered in the items appearing on this exhibit, although not appearing separately.

Take, for illustration, that next column. We have spoken of net revenue from railway operations. The next column, "Railway operating income", is what is left out of net revenue after the payment of taxes.

Senator DIETERICH. Yes.

Mr. ANDERSON. Then we go to the next column, "Net railway operating income." That is what is left after the payment of equipment and joint-facility rentals.

Senator DIETERICH. Then you go down to "Income available for fixed charges."

Mr. ANDERSON. Yes, sir; that was the earnings during the receivership period—the amount which they had available for payment of fixed charges, such as interest.

Senator DIETERICH. Then it shows "Net income."

Mr. ANDERSON. Yes, sir. That is left after the receivers had paid the interest on the receivers' obligations.

Senator DIETERICH. But not interest on any other obligations?

Mr. ANDERSON. No, sir.

Senator DIETERICH. Taxes?

Mr. ANDERSON. Oh, yes; and this is what is left after all charges of the receivership.

Senator DIETERICH. In other words, this which is left here, which you call net income, could be a fund that would be applied on the fixed indebtedness of the road?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. What did the interest amount to in 1 year on the obligations as they existed at the time the receivers took charge?

Mr. ANDERSON. It amounted to $1,900,000 in 1 year.

Senator DIETERICH. $1,900,000?

Mr. ANDERSON. Yes.

Senator DIETERICH. I notice by this that the operating revenues uniformly declined down to 1934, from $15,000,000 to $7,000,000, or approximately one-half; is that correct?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. Your operating expenses declined almost in a similar ratio, did they not?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. There are fluctuations in the tables following, under "Net revenue from railway operations", "Railway operating income", "Net railway operating income", "Income available for fixed charges", and "Net income." They fluctuate and do not show a steady decline; is that correct?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. Does any part of the cost of operating the receivership figure in these expenses?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. Were they paid?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. What are these receivers' obligations that we talked about?

Mr. ANDERSON. The receivers' certificates?

Senator DIETERICH. Yes.

Mr. ANDERSON. The purpose for which they were issued?

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Senator DIETERICH. Yes.

Mr. ANDERSON. There were three issues of receivers' certificates. The first was for $200,000, an issue immediately after the appointment of the receivers, to take care of pay rolls.

Senator DIETERICH. Yes. That would have come into operating expenses?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. You do not show these receivers' certificates, though, charged against that, do you?

Mr. ANDERSON. No.

Senator DIETERICH. Then the operating expenses were $200,000 more during the years those receivers' certificates were issued and paid out?

Mr. ANDERSON. That $200,000 covered pay roll that had accrued prior to receivership.

Senator DIETERICH. Prior to receivership?

Mr. ANDERSON. Yes. It is a prior-to-receivership obligation, and was paid by the receivers.

Senator DIETERICH. Do you mean that this road, when it went into receivership, had not paid its employees?

Mr. ANDERSON. They had paid that which became due and payable.

Senator DIETERICH. Is there any pay roll of employees that is not due when payable in monthly or semimonthly periods?

Mr. ANDERSON. They are due and payable semimonthly. That is to say, the pay rolls for the 1st half of July were payable on August 1. The road went into receivership on July 26.

Senator DIETERICH. Do you mean that $200,000 was borrowed to meet that pay roll of that particular month?

Mr. ANDERSON. Yes.

Senator DIETERICH. Now, to continue on, when was the next issue of receivers' certificates?

Mr. ANDERSON. In 1924, for $750,000.

Senator DIETERICH. That is a year after the road went into receivership. What was that for?

Mr. ANDERSON. That was for various material and supply accounts and railroad accounts and included a substantial amount of accounts owing railroads on joint-facility accounts.

Senator DIETERICH. Were they obligations that accrued prior to receivership?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. They also were obligations prior to the receivership?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. Were there any receivership certificates to meet any current obligations?

Mr. ANDERSON. Yes, sir; in 1925.

Senator DIETERICH. What was the amount issued then?

Mr. ANDERSON. $1,000,000.

Senator DIETERICH. What was that for?

Mr. ANDERSON. That was for the payment of current material and supply accounts—receivers' obligations.

Senator DIETERICH. Would not that have gone into operating expenses?

Mr. ANDERSON. It all went into operating expenses.

Senator DIETERICH. But you did not charge that operating account with that obligation, did you?

Mr. ANDERSON. No; we charged the account with——

Senator DIETERICH (interposing). I mean, in your operating revenues you did not include that million dollars?

Mr. ANDERSON. No.

Senator DIETERICH. What year was it when that million dollars was issued?

Mr. ANDERSON. 1925.

Senator DIETERICH. In 1925 there was a million dollars borrowed by the receivers to pay operating expenses other than those you have listed here?

Mr. ANDERSON. No; to pay operating expenses that are contained in these amounts.

Senator DIETERICH. For which there was no revenue?

Mr. ANDERSON. Right.

Senator DIETERICH. So, that particular figure, when it comes to net income, does not take into consideration the million dollars that you borrowed?

Mr. ANDERSON. No, sir.

Senator DIETERICH. The net income, if you took that out, would not be the figure shown in the "net income" column, would it?

Mr. ANDERSON. I will answer you in this way, if I may be permitted to do so.

Senator DIETERICH. Do you not understand my question?

Mr. ANDERSON. I see what you mean, all right.

Senator DIETERICH. Is there any reason why you cannot answer it directly?

Mr. ANDERSON. The reason why they did not have money to pay these receivers'——

Senator DIETERICH. That is not my question. My question was, If the million dollars that was borrowed, and the obligations outstanding, had been taken into account, the net income would not have been what is indicated in that column? That question is not difficult to answer, is it?

Mr. ANDERSON. It is when I hearken back to an answer I gave you a moment ago, when I said they did not have revenues to pay those——

Senator DIETERICH. I am asking you if you understand that question. If you do, I wish you would answer it for me. We are not going to conduct a contest of wits, or anything like that. If you understand the question, answer it; if you do not, indicate it, and I will clarify it. If you want to mask it in something else, then you might just as well not answer it.

Mr. ANDERSON. I cannot answer that question, Senator.

Senator DIETERICH. It is not that you cannot answer it, because you understand it.

When you take into consideration the obligations that were issued and went into that, this column, "net income", would not be the same would it? There is nothing difficult in that question, is there?

Senator BENSON. Is it not a fact that the million dollars about which Senator Dieterich is questioning you does not enter into those figures that you have there?

Mr. ANDERSON. That is correct.

Senator DIETERICH. That is exactly what I am saying; and if it did enter into it, this column would be different?

Mr. ANDERSON. Yes; it would be.

Senator BENSON. And if the $46,000,000 went in there, there would be that much difference. Why bemuddle it?

Senator DIETERICH. The Senator must not assume that because my questions are intelligible to the intelligent mind there is any attempt to bemuddle anything at all. If you would cut out this bemuddling, probably these employees of this company would get along a little better.

Senator BENSON. Your Illinois politics may have something to do with it.

Senator DIETERICH. Illinois can take care of itself.

Senator SHIPSTEAD. Can you say why that statement is not in there?

Mr. ANDERSON. I made an answer to a question with regard to the million dollars that it was necessary, by reason of insufficient revenue in that connection—the fact that we had insufficient revenue to pay these expenses by reason of having paid prior-to-receivership accounts.

In the fore part of the receivership the receivers paid something like about $1,724,000 of prior-to-receivership accounts other than interest, and they also paid some interest on bonds—corporate interest—of $699,000.

Senator DIETERICH. That has nothing to do with the last million that was borrowed, does it?

Mr. ANDERSON. Only to this extent, that if they had not paid prior-to-receivership accounts, they would not have had to borrow money to pay their own bills.

Senator DIETERICH. You borrowed to pay that, but this million that you are talking about because of insfficient revenue—if that million were charged against it, your net income would be different?

Mr. ANDERSON. In that case that million would be in there twice, that million dollars of bills charged to operating expenses having served to reduce net income to the figure as shown. If it were not in there, it would be increased by a million dollars, so one washes the other.

Senator DIETERICH. Let us just analyze your statement a little. You say it would be in there twice. If that million dollars was in there, this would be reduced. Can you tell me how you figure that? If you borrowed a million dollars to assist in paying the operating expenses of the road for any particular year because there was insufficient revenue, then certainly, when you figure the net revenue, the net earnings, you should take into consideration the million dollars that you borrowed, that the revenue did not produce.

Mr. ANDERSON. Then, as I understand your question, that million dollars should be charged into operating expenses?

Senator DIETERICH. The million dollars should be considered as an obligation for operating expenses and be added to it. If you add to the operating expenses the million dollars that you borrowed, that would reduce the net income.

Mr. ANDERSON. The point I am trying to make is that that million dollars is already in operating expenses.

Senator DIETERICH. Where is it shown in here?

Mr. ANDERSON. By the various items of materials and supplies purchased.

Senator DIETERICH. But that is still an outstanding obligation, is it not?

Mr. ANDERSON. No; not after they got the money and paid them off.

Senator DIETERICH. Has that million dollars been paid?

Mr. ANDERSON. Not entirely; part of it has.

Senator DIETERICH. What part of it?

Mr. ANDERSON. The three figures I gave you of receivers' certificates, aggregating $1,950,000.

Senator DIETERICH. But I am talking about the last million which you say was borrowed in 1925. We have passed the others. I am talking about that million dollars that was borrowed to make up the deficiency in the earnings of the road, that was borrowed to pay operating expenses. That has not been paid off.

Mr. ANDERSON. Part of it has been paid off since.

Senator DIETERICH. Well, Mr. Witness, I do not think I will take up any further time of the committee. I rather think that we are unable to understand each other.

Mr. ANDERSON. I am doing my best to make things clear. I am here to state the facts as they appear in the records.

Senator DIETERICH. Well, now, let us take a living example. Your income that your revenue produced in 1925 was $15,077,671.16.

Mr. ANDERSON. Yes.

Senator DIETERICH. The operating expenses were $13.217,625.16.

Mr. ANDERSON. Yes.

Senator DIETERICH. If that is correct, then there was no occasion for the borrowing of any money to pay operating expenses, was there?

Mr. ANDERSON. That is right.

Senator DIETERICH. But you did borrow a million dollars?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. That $13,217,625.16 represents the operating expenses less $1,000,000 that you borrowed and with which you took up operating obligations, so the fact of it is that your operating expenses were $14,217,625.16, and you reduced it $1,000,000 by issuing the receivers' certificates and paying a million dollars from the operating expenses.

That would reduce, in the end, the net income for the year. Instead of being a net income of $220,623.13, it would be a deficit of approximately $780,000.

Mr. ANDERSON. Insofar as that is concerned with it, your reckoning is proper.

Senator DIETERICH. All right; that is all I want to know.

Senator SHIPSTEAD. This is a receivers' statement, is it, Mr. Anderson?

Mr. ANDERSON. Yes.

Senator BENSON. Is it not a fact, Mr. Anderson, that in arriving at your figure of $220,000 you did use some of the funds of the current operating revenues to pay previous obligations of the railroad?

Mr. ANDERSON. That is absolutely true.

Senator BENSON. Why did you not say so in answer to this question, and not answer to something else?

Mr. ANDERSON. I did state here just a few minutes ago——

Senator BENSON. It seems to me the thing we are trying to get at is what actually takes place, and not something that does not.

Senator DIETERICH. I am trying to find out what the condition of the road was for my own information, not for the information of somebody else. I am trying to find out what the earnings and expenditures of the road are.

If I do not earn enough in 1 year to operate myself for that year and have got to borrow to supply that fund, I must necessarily, in figuring up my net earnings, charge against it what I borrowed.

Senator BENSON. But if you used the current operating earnings to pay previous obligations, and you borrow to replace those funds so used, does not that have some bearing on the case, and would you not like to know that, too? That is what the man has been trying to testify to. I think everybody here except Senator Dieterich knew it.

Snator DIETERICH. I am glad that we finally have one intelligent Senator in the Senate. We have been looking for him for a long while.

Senator SHIPSTEAD. Do you mean to say that this money that was borrowed was used to pay the obligations that were not incurred as operating expenses in the same year the money was borrowed?

Mr. ANDERSON. That money was borrowed to pay receivers' accounts payable.

Senator SHIPSTEAD. When had those receivers' accounts accrued? In 1925?

Mr. ANDERSON. I would say perhaps some of them lapped over, back into 1924.

Senator SHIPSTEAD. Some of them?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. But some of them were incurred during 1925?

Mr. ANDERSON. Oh, yes; I would say largely so.

Senator SHIPSTEAD. For operating expenses?

Mr. ANDERSON. Oh, yes.

Senator SHIPSTEAD. And largely so?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. Why is it not charged to operating expenses?

Mr. ANDERSON. The accounts that were incurred were charged to operating expenses and set up as a liability. The liability was cleared when they got the money through the issuance and sale of receivers' certificates.

Senator SHIPSTEAD. New certificates?

Mr. ANDERSON. Receivers' certificates.

Senator SHIPSTEAD. New certificates were issued to borrow money?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. To pay for accounts that had been incurred probably in 1925?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. And incurred through operating expense?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. I think it is clear.

Senator DIETERICH. It is clear in my mind. I am very clear on it.

Senator SHIPSTEAD. In the fourth column you have what is called "Railway operating income."

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. What does that consist of? That is after what has been paid?

Mr. ANDERSON. That is after deducting from the net revenue in the column appearing to the left, the tax items.

Senator SHIPSTEAD. After taxes have been paid?

Mr. ANDERSON. And uncollectible railway revenue—four items.

Senator SHIPSTEAD. Does that include interest on receivers' certificates?

Mr. ANDERSON. No, sir.

Senator SHIPSTEAD. That is railway operating income?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. The fifth column is "Net railway operating income." What is that?

Mr. ANDERSON. That is after the payment of hire of equipment, rentals, and the payment of joint-facility rentals—payments to other railroads.

Senator SHIPSTEAD. Column 6 is "Income available for fixed charges."

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. Is that income available to pay interest on the receivers' certificates? Do you call that a fixed charge?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. If there is anything left, what do you do with it?

Mr. ANDERSON. Not only interest on receivers' certificates but interest on equipment-trust obligations.

Senator SHIPSTEAD. Anything else?

Mr. ANDERSON. Those are the two substantial items.

Senator SHIPSTEAD. Column 7 is what you call "Net income for payment on fixed charges." That is after what?

Mr. ANDERSON. After fixed charges.

Senator SHIPSTEAD. Of the receivership?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. Not fixed charges of the railroad company outside the receivership?

Mr. ANDERSON. No.

Senator SHIPSTEAD. In this column 7 you have got 4 years here where evidently there was a deficit. Those years were 1924, 1931, 1932, and 1934.

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. The other figures here show a net income?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. What are the total receivers' certificates outstanding?

Mr. ANDERSON. $1,185,000.

Senator SHIPSTEAD. $1,185,000?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. They are all the receivership certificates outstanding?

Mr. ANDERSON. Yes, sir; they paid off some back in 1930. They paid off $765,000. There was a total issue of $1,950,000, and they have paid off the difference to what it is.

Senator SHIPSTEAD. Do you owe anything on equipment trusts?

Mr. ANDERSON. There is owing at the present time on equipment trusts—not matured; there is nothing in default—approximately $700,000, of which $50,000 or $53,000 will be paid in the next few days, and the money has been placed for that purpose. That is the final note payment on one of the equipment-trust obligations. So there remains around $650,000 on equipment-trust notes.

Senator SHIPSTEAD. How much?

Mr. ANDERSON. $650,000.

Senator DIETERICH. Incurred during receivership?

Mr. ANDERSON. Yes, sir; in 1930.

Senator DIETERICH. Is that taken into account in this computation?

Mr. ANDERSON. Only the interest charges as accrued.

Senator DIETERICH. But not the equipment-trust charges?

Mr. ANDERSON. They do not enter into it.

Senator DIETERICH. That would reduce the net earnings, if it were taken into account?

Mr. ANDERSON. Oh, yes; but that is not accounted for in the income account as we are required to keep it.

Senator BENSON. To what extent would an obligation of that kind have any bearing on your income?

Mr. ANDERSON. Only to the extent of the interest charges on it.

Senator BENSON. In other words, this $50,000 has no bearing on it at all for accounting pruposes, does it?

Mr. ANDERSON. No, sir.

Senator SHIPSTEAD. When is the rest of it due?

Mr. ANDERSON. It is due in monthly installments of $13,406 each month.

Senator SHIPSTEAD. When was that money incurred?

Mr. ANDERSON. There were two issues, one in 1930 and one in 1931. They run out in 1939, I believe.

Senator SHIPSTEAD. Were they for 10 years?

Mr. ANDERSON. I think so; yes.

Senator SHIPSTEAD. Have you been paying off those payments monthly?

Mr. ANDERSON. Yes, sir; every month.

Senator SHIPSTEAD. Out of earnings?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. You have been paying for borrowed money out of earnings?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. Ever since that debt was incurred?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. How much have you reduced the receivers' certificates out of the total borrowed under the receivership?

Mr. ANDERSON. $765,000.

Senator SHIPSTEAD. It has been reduced that much?

Mr. ANDERSON. Yes, sir. You were speaking of equipment-trust-note payments?

Senator SHIPSTEAD. I spoke of them first; then I had inquired if you had reduced the receivers' certificates from the time you began to borrow. Have you reduced them out of earnings?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. There was a deficit in 1924. You borrowed some money then?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. How much?

Mr. ANDERSON. $750,000.

Senator SHIPSTEAD. How much of that was used to pay obligations prior to receivership?

Mr. ANDERSON. Substantially all of it.

Senator SHIPSTEAD. Well, how much?

Mr. ANDERSON. I haven't the figures exactly.

Senator SHIPSTEAD. You say substantially all of it?

Mr. ANDERSON. Substantially all of it, yes; and there have been some current items in there.

Senator SHIPSTEAD. How much did you say you borrowed?

Mr. ANDERSON. $750,000.

Senator SHIPSTEAD. Is that still part of the $1,185,000 you still owe on receivers' certificates?

Mr. ANDERSON. I can't answer that without a complete search of the records, because these notes have been issued and renewed and changed around here and there.

Senator SHIPSTEAD. In the year 1924 the road spent $6,000,000 on maintenance; is that right?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. Extraordinary expenditures?

Mr. ANDERSON. Yes; included in that amount are extraordinary expenditures.

Senator SHIPSTEAD. Did these extraordinary expenditures for maintenance at that time have anything to do with having to borrow money that year and have anything to do with the deficit?

Mr. ANDERSON. Yes, sir; it decidedly had to do with the deficit; as to the borrowings, it may have had to do something with them, although I do not have the detail of all the items for which they borrowed money.

Senator SHIPSTEAD. You had a deficit in 1932. Did you borrow money in 1932?

Mr. ANDERSON. No, sir.

Senator SHIPSTEAD. You just carried it?

Mr. ANDERSON. Just piled up the bills.

Senator SHIPSTEAD. How did you carry it? As current liabilities?

Mr. ANDERSON. Current liabilities.

Senator SHIPSTEAD. Has that been paid since and cleared up?

Mr. ANDERSON. Some of it has.

Senator SHIPSTEAD. Not all of it?

Mr. ANDERSON. You are speaking of 1922, are you not?
Senator SHIPSTEAD. 1932.
Mr. ANDERSON. I thought you mentioned 1922.
Senator SHIPSTEAD. No.
Mr. ANDERSON. You mean 1932?
Senator SHIPSTEAD. I mean 1931.
Mr. ANDERSON. I was talking about 1922. Pardon me; I misunderstood you.
Senator SHIPSTEAD. You had a big deficit in 1932?
Mr. ANDERSON. Yes.
Senator SHIPSTEAD. You carried that as current liability?
Mr. ANDERSON. Yes, sir.
Senator SHIPSTEAD. Has it been cleared up since?
Mr. ANDERSON. Yes, sir.
Senator SHIPSTEAD. How was it cleared up? Out of earnings?
Mr. ANDERSON. Out of earnings.
Senator SHIPSTEAD. You did not borrow money to clear that up?
Mr. ANDERSON. No, sir.
Senator SHIPSTEAD. I see that in 1933 you had a net income of $155,000, in round numbers?
Mr. ANDERSON. Yes.
Senator SHIPSTEAD. Have you cleared up the deficit of the year before out of earnings?
Mr. ANDERSON. Not entirely.
Senator SHIPSTEAD. That net income was for the year 1933, and you still had some liabilities left over from 1934?
Mr. ANDERSON. Yes.
Senator SHIPSTEAD. In 1935 you had a net income of $39,983.61. Have you here a statement of the current liabilities that are now outstanding? Have you here a statement showing what your current liabilities are?
Mr. ANDERSON. No. I think I could read that from an annual report, though.
Our current liabilities at the close of 1935 were approximately $822,000.
Senator SHIPSTEAD. Has that accumulated over a period of years? You have not counted the receiver's certificates in that?
Mr. ANDERSON. No, no. These are current accounts payable. They are carried forward right along. As we pay off with one month we accrue in the next month.
For illustration, one of the items making up that $822,000 is unpaid wages of $325,000. That is a month and a half of wages. That is no default; it is an accumulation that carries on from month to month. We will always have them.
Senator SHIPSTEAD. Then you have accounts receivable and income from nonoperating property?
Mr. ANDERSON. Yes.
Senator SHIPSTEAD. Have you any other income to cover that current liability and fixed charges?
Mr. ANDERSON. None other than current assets that might be applied offsetting.
Senator SHIPSTEAD. What are they?
Mr. ANDERSON. Our current assets, including materials and supplies and cash on hand in banks, are $1,500,000 as of the close of 1935.

Senator SHIPSTEAD. Then I am not going to worry about the current liabilities.
Mr. ANDERSON. No; we have almost twice as much.
Senator SHIPSTEAD. You have piled up the current assets, then, out of earnings far in excess of your current liabilities?
Mr. ANDERSON. That is right.
Senator SHIPSTEAD. So you have a profit, then; that is, you have an asset there?
Mr. ANDERSON. If we were to liquidate, we would have a substantial sum left over.
Senator SHIPSTEAD. Yes; if you were to liquidate your current liabilities?
Mr. ANDERSON. Yes.
Senator DIETERICH. If you figure a little more, you will get the road out of receivership.
Mr. ANDERSON. I am stating the facts as they appear in the record, sir.
Senator DIETERICH. I am only hoping you can do that; I am not trying to interfere with you.
Senator SHIPSTEAD. I am sure, Senator, that with your help we shall be able to.
Mr. ANDERSON. Please do not understand, Senator, that I am stating anything but exactly what appears in the records.
Senator DIETERICH. I understand.
Mr. ANDERSON. We may have different ways of looking at it, through different colored glasses, but the results are here, and I am trying to express them.
Senator SHIPSTEAD. During the receivership period you had $4,344,815.47 as income available for fixed charges?
Mr. ANDERSON. Yes, sir.
Senator SHIPSTEAD. That was paid, was it, during the receivership?
Mr. ANDERSON. I do not understand your question, sir.
Senator SHIPSTEAD. During the receivership you had available for fixed charges how much?
Mr. ANDERSON. $4,344,000.
Senator SHIPSTEAD. You paid that on fixed charges, did you not?
Mr. ANDERSON. We paid all but $1,660,000, which we had left over.
Senator SHIPSTEAD. Out of the $4,000,000?
Mr. ANDERSON. Yes.
Senator SHIPSTEAD. You had a surplus after paying the fixed charges?
Mr. ANDERSON. Yes.
Senator SHIPSTEAD. On the receivership account?
Mr. ANDERSON. Yes, sir; of $1,660,000.
Senator SHIPSTEAD. Do you have that now? What did you do with it?
Mr. ANDERSON. We paid prior-to-receivership accounts.
Senator SHIPSTEAD. I see. What would that be? Interest on funded debt?
Mr. ANDERSON. We paid $699,000 interest on funded debt, and we paid $1,724,000 on what were current liabilities at the time we went into receivership.

Senator SHIPSTEAD. Oh, you were paying old debts?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. Out of earnings of the receivership you were paying debts that were incurred prior to receivership?

Mr. ANDERSON. Yes. The aggregate of those was about $2,600,000 in excess of the receiver's borrowings.

Senator SHIPSTEAD. What did you call that first-mortgage bond issue of nine hundred and some thousand dollars?

Mr. ANDERSON. The $950,000 is the Albert Lea and Merriam Junction mortgage.

Senator SHIPSTEAD. During the receivership were you keeping up the interest payments on that mortgage?

Mr. ANDERSON. Yes; we paid the interest charges on that up to the date of its maturity, June 1, 1927, at which time it was extended for a period of 5 years up to 1932. The receiver guaranteed payment of interest on that extension mortgage, a 6-percent mortgage, and that interest was charged against his operations. Since 1932, the date of the maturity of the extension mortgage, no interest has been paid.

Senator SHIPSTEAD. You had, then, out of earnings during the receivership paid up a lot of bills, fixed charges, and so forth, that were incurred prior to receivership?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. Do you know the total of what you paid out of the earnings of the receivership?

Mr. ANDERSON. About $2,423,000.

Senator SHIPSTEAD. $2,423,000?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. You owe $1,185,000 on receivership certificates and $650,000 on equipment trusts?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. That makes, then $1,835,000; and that is all you owe since the receivership?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. $1,835,000?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. If you had applied to the obligations incurred under the receivership the $2,423,000 paid for bills not incurred or obligations not incurred under the receivership, you would have had a balance of $588,000 and would have made a profit?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. You were paying out of the operation of the road even during the depression obligations incurred during the boom or during good times?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. And because the receiver did that, he still owes the receiver's certificates?

Mr. ANDERSON. I think that is a fair statement.

Senator SHIPSTEAD. And he owes on equipment trust?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. $1,835,000.

Mr. ANDERSON. That is the total of the two.

Senator SHIPSTEAD. He would not be doing that now if he had not paid obligations incurred prior to the receivership?

Mr. ANDERSON. That is a correct statement.

Senator SHIPSTEAD. If that is true, if it had not been for the management and financing and the heavy fixed charges prior to the receivership, and the lack of maintenance, the receivership would have done pretty well, so far as earning operating expenses was concerned?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. If I understood you, the receiver paid some $2,000,000 out of the earnings of the road during the receivership on previous obligations?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. Do you know whether that included any interest?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. Not on the funded indebtedness?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. On that $900,000?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. That is what it was? Nothing other than that?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. What else was it? It was not on any of this $45,000,000, was it?

Mr. ANDERSON. Yes, sir; I have a memorandum——

Senator DIETERICH (interposing). You paid some interest on the $45,000,000?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. How did you distribute that?

Mr. ANDERSON. We paid interest on the Des Moines and Fort Dodge mortgage, the first interest maturity following the appointment of the receiver.

Senator DIETERICH. Was that obligation prior to the receivership?

Mr. ANDERSON. So-called, yes; it is corporate.

Senator DIETERICH. Mr. Witness, I was just wondering how you paid on that. Did they determine the priority of those liens or pay the interest on the prior liens? Otherwise they would have had to make distribution among all the bondholders of the $45,000.

Mr. ANDERSON. There was interest paid on five mortgages. If you care for the figures, I will read them.

Senator DIETERICH. Do you mean interest that had accrued prior to the receivership?

Mr. ANDERSON. Some of it accrued prior to receivership and some of it during receivership, but considered corporate transactions and not reflected in those figures.

Senator DIETERICH. Let me call your attention to the tabulation on just one proposition, and then perhaps you and I will finish on this.

I notice that there is a deficit in 1924, a deficit in 1931, a deficit in 1932, and a deficit in 1934. That deficit amounted, if I have calculated correctly, to something like $1,467,000. That is correct, is it not?

Mr. ANDERSON. Approximately.

Senator DIETERICH. I am not asking for accurate figures.

Mr. ANDERSON. Surely.

Senator DIETERICH. Then you show net income which, if I have added it correctly, is something like $3,123,000.

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. Those figures are approximate; I have not made accurate figures on this.

In that there are $1,100,000 of receiver's certificates that were unpaid; is that correct?

Mr. ANDERSON. If you want to figure it that way.

Senator DIETERICH. I say, they are outstanding.

Mr. ANDERSON. Yes; they were outstanding.

Senator DIETERICH. $1,100,000 unpaid?

Mr. ANDERSON. Yes, sir; there is that much.

Senator DIETERICH. What were these $600,000 of other obligations?

Mr. ANDERSON. $650,000 of equipment trust notes.

Senator DIETERICH. They were contracted by the receiver?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. They were outstanding and unpaid?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. They are not taken into consideration in those figures?

Mr. ANDERSON. No, sir.

Senator DIETERICH. So, if you would add the $1,100,000 of receiver's certificates and the $650,000 of trust notes, that would be $1,750,000, which would make a little more than the $3,112,000 after being added to the $1,467,000 deficiency. That would show for the entire period of your tabulation that during the entire period the road did not earn the operating expenses. Am I correct on that?

Mr. ANDERSON. If you want to figure it that way.

Senator DIETERICH. That is not an unfair figuring, is it?

Mr. ANDERSON. There is more than one way in which that can be figured.

Senator DIETERICH. But the figuring is how much you take in, not how much you pay out? And that is correct on that particular theory?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. If you credited the payments paid on accounts not incurred by the receiver, there would be a surplus, would there not?

Mr. ANDERSON. Yes, sir.

Senator MURPHY. May I ask a question?

Senator SHIPSTEAD. Surely.

Senator MURPHY. It seems to me that this is a very material point which you have under discussion.

For the entire period covered by the receivership, what amount was paid out on account of obligations incurred prior to receivership?

Mr. ANDERSON. $2,423,000.

Senator MURPHY. Following the point developed by Senator Dieterich a moment ago, is that $2,000,000 reflected here? Are you giving credit for that?

Mr. ANDERSON. No; that was paid out of these earnings.

Senator MURPHY. And these earnings were after that?

Mr. ANDERSON. No; it was not charged to those operations. It is not reflected in these figures at all, but one way of saying it is that they took this net income that they had—they took this net income together with he borrowings and paid prior-to-receivership obligations which are not in these figures.

Senator SHIPSTEAD. Are you through, Senator Murphy?

Senator MURPHY. For the present.

Senator SHIPSTEAD. With reference to this figure of $4,344,000 that you said was earned by the receiver, available for fixed charges, should there not, in your opinion, be any adjustment to the amount you have just indicated? Was there not a larger income than that?

Mr. ANDERSON. Yes; on the basis of a going concern—or not a going concern; I should say on the basis of ordinary operations or ordinary conditions.

Senator SHIPSTEAD. Yes.

Mr. ANDERSON. There should be an adjustment in that figure.

Senator SHIPSTEAD. What should it be? Take conditions as they were. Do you mean to say these were not ordinary conditions?

Mr. ANDERSON. Yes. There were certain receivership expenses paid.

Senator SHIPSTEAD. What were they? What was the amount? You do not need to go into detail. Were the receivership expenses not charged to operation expense?

Mr. ANDERSON. There were receivership expenses such as allowances, and so on, of approximately $810,000, and there was also an item of extraordinary or deferred maintenance that was paid by the receiver of $832,000. I think that those two items may properly be added to the income of $4,344,000.

Senator SHIPSTEAD. As available for fixed charges?

Mr. ANDERSON. Yes, sir; under normal conditions.

Senator SHIPSTEAD. For instance, was this $810,000 for receiver's expenses, extraordinary expenses?

Mr. ANDERSON. Yes; extraordinary and unusual expense. They were expenses that would not have been incurred had there been no receivership.

Senator SHIPSTEAD. If you add that to the $832,000 for deferred maintenance, you will have about $6,000,000?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. Then there were actually earned above operating expenses, that could legitimately be charged to operating expenses, a net amount of extraordinary expenses due to the receivership and deferred maintenance for which the receiver was not accountable or not responsible; is that right?

Mr. ANDERSON. That is right.

Senator SHIPSTEAD. Then you had actually $6,000,000 over and above the operating expenses up until what time?

Mr. ANDERSON. December, I think, 1935.

Senator SHIPSTEAD. December 1935. Who was the receiver during the period from 1923 to 1935?

Mr. ANDERSON. W. H. Bremmer.

Senator SHIPSTEAD. Then he ceased to be receiver in 1935?

Mr. ANDERSON. He passed away in December 1935.

Senator SHIPSTEAD. He died?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. And a new receiver was appointed?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. What is his name?

Mr. ANDERSON. L. C. Sprague was appointed operating coreceiver on January 1, 1936.

Senator SHIPSTEAD. Can you give us a comparison showing the total revenue or railway revenue and receiver's net income for the years 1934 and 1935? How did that income compare in 1935 with 1934?

Mr. ANDERSON. The gross revenues of 1935 increased over 1934 by $96,707.

Senator SHIPSTEAD. What was the net income?

Mr. ANDERSON. The net income increased $81,587.

Senator SHIPSTEAD. That was after all taxes and interest on fixed charges had been paid?

Mr. ANDERSON. All the receiver's obligations.

Senator SHIPSTEAD. During 1935 did the Minneapolis & St. Louis Railroad readjust or restore the 10-percent wage cut that had been made by all railroads during the depression?

Mr. ANDERSON. They made the wage restorations as they became effective under the national plan. There was a 2½-percent wage restoration—the entire 10 percent was restored in this manner:

Effective July 1, 1934, 2½ percent; effective January 1, 1935, 2½ percent; and the remaining 5 percent was restored, effective April 1, 1935.

Senator SHIPSTEAD. How much would that add to your operating expense during the year 1935?

Mr. ANDERSON. I figured that the wage restorations in 1935 increased our pay rolls by $297,000.

Senator SHIPSTEAD. So you had extraordinary expenses over 1934 due to an increase in the labor cost of $297,000, and the receiver increased his net income by more than $81,000 over 1934; is that right?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. I see that the operating revenue began to decline in 1931 and that it declined in 1932, 1933, and 1934. That was during the so-called depression?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. That was due to an extraordinary condition out there that was not manifest in other parts of the country, due to the drought, over a period of years.

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. That must have affected the operating income of the railroads?

Mr. ANDERSON. Decidedly.

Senator SHIPSTEAD. Do you think that that, in addition to the depression, caused that drop in revenue?

Mr. ANDERSON. Yes, sir; there is no question about it in my mind.

Senator SHIPSTEAD. Do you know of anything else that did it or is responsible for it?

Mr. ANDERSON. No.

Senator SHIPSTEAD. This statement that you gave here was a receiver's statement—a statement of the receiver's operating expenses and income, and so forth.

What do you mean by "receiver's net income"?

Mr. ANDERSON. That is the net income. That is what he had left after the payment of all his obligations.

Senator DIETERICH. Mr. Anderson, do you know what caused the depression?

Mr. ANDERSON. No, sir.

Senator MURPHY. Before you leave that subject, you enumerated two causes, as I understood it, for the decline of revenues. One was the drought and the other was the depression.

Mr. ANDERSON. Yes.

Senator MURPHY. Would the fact that your road was in receivership—that very fact in itself—affect your revenues by discouraging shippers from using your facilities, causing them to be apprehensive as to whether you would be able to give them service?

Mr. ANDERSON. I don't think so; and if you wish, I should like to say that we are still in receivership and our revenues are increasing; and I do not know that the depression is over.

Senator MURPHY. Notwithstanding that the revenues are increasing, the fact that you are in receivership would discourage shipments on your lines. It would seem to be a logical thing.

Mr. ANDERSON. I do not know why it should. We are rendering service.

Senator MURPHY. That might all be true, but the psychology would be there, and there would be in the mind of a shipper the thought, "Oh, that road is in receivership."

Mr. ANDERSON. Well, from my standpoint it would make no difference. Our minds, of course, are different on the matter.

Senator BENSON. You testified some time back regarding the present current assets of the company. Do you recall just what that figure was?

Mr. ANDERSON. Yes; $1,500,000.

Senator BENSON. What portion of that is in the form of cash in the bank or cash on hand?

Mr. ANDERSON. $435,000 as of the close of last year.

Senator BENSON. Is there any present plan of using any of that money to pay existing indebtedness?

Mr. ANDERSON. Yes; I think that is the intention of the management, if they have not already done so, to ask authority of the court to pay off either 15 or 20 percent on the receiver's certificates.

Senator BENSON. Do you have the cash to do that?

Mr. ANDERSON. We have the cash to do that, and that is why they have that in mind.

Senator SHIPSTEAD. Can you tell us what interest charges the receiver has paid during the receivership?

Mr. ANDERSON. Do you mean that which has been charged to his operations?

Senator SHIPSTEAD. Yes; to the receiver's operation—what interest charges has he paid on his own borrowings? Can you give us a figure?

Mr. ANDERSON. And the equipment trust notes?

Senator SHIPSTEAD. Yes. That was his borrowing, was it not?

Mr. ANDERSON. Not entirely. There was a substantial sum of equipment trust notes unmatured at the beginning of the receivership, which he assumed and has paid the interest thereon, and the principal is still due, and the interest has been charged up to his operations.

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Senator SHIPSTEAD. How much would that be?

Mr. ANDERSON. All those interest charges, including on his own borrowings, approximately $2,600,000.

Senator SHIPSTEAD. That includes the interest he paid on equipment trust notes that were borrowed before he became receiver?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. Do you know how much that was?

Mr. ANDERSON. I haven't a separation of it.

Senator SHIPSTEAD. Can you tell us how much he has paid altogether?

Mr. ANDERSON. He has paid altogether on equipment trust notes in interest $1,293,000.

Senator SHIPSTEAD. In interest only?

Mr. ANDERSON. In interest only.

Senator SHIPSTEAD. In addition to interest on the receiver's borrowings, and not counting the interest paid on equipment trusts, what has he paid on the corporate debt?

Mr. ANDERSON. He has paid principal on equipment-trust notes of $3,041,000 during the period of the receivership.

Senator DIETERICH. That means that he has issued notes in order to buy equipment and that he has paid those notes off?

Mr. ANDERSON. These were notes that were issued prior.

Senator DIETERICH. What is the amount of the notes issued prior, that were outstanding at the time he took over the receivership, and which have been paid?

Mr. ANDERSON. $3,041,000.

Senator DIETERICH. Outstanding at the time of his appointment as receiver?

Mr. ANDERSON. Outstanding at the time of his appointment as receiver.

Senator SHIPSTEAD. He has paid that much?

Mr. ANDERSON. He has paid that much.

Senator SHIPSTEAD. How much?

Mr. ANDERSON. $3,041,000.

Senator SHIPSTEAD. I thought you said he had paid only $2,341,000.

Mr. ANDERSON. That is ordinary current liabilities and interest charges. In addition to that sum, he has paid principal on equipment-trust notes that were outstanding at the beginning of the receivership to the amount of $3,041,000.

Senator SHIPSTEAD. That makes a different figure again. Then he has paid obligations incurred prior to receivership of nearly $5,500,000?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. Do you know of any other obligations incurred prior to receivership that have been paid out of the receiver's earnings?

Mr. ANDERSON. No; I don't.

Senator SHIPSTEAD. You said that he owed receiver's certificates of $1,185,000.

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. What is the greatest amount of receiver's certificates he has had outstanding?

Mr. ANDERSON. $1,973,000.

Senator SHIPSTEAD. That has been reduced out of earnings?

Mr. ANDERSON. Yes, sir; reduced out of earnings.

Senator DIETERICH. I cannot reconcile that answer with what you have said. If $1,900,000 is all that he has ever had outstanding at one time, how could he have paid over $2,000,000 worth of this kind of obligation when he became receiver unless they were outstanding?

Mr. ANDERSON. He paid it out of income.

Senator DIETERICH. But you said there was never a time when there was more than $1,000,000 and something outstanding.

Mr. ANDERSON. Yes; but there is depreciation reserve charged up to operating expenses.

Senator DIETERICH. I am talking about these trust notes.

Mr. ANDERSON. Yes.

Senator DIETERICH. Did I understand you aright when you said he paid something like $3,000,000?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. Of trust notes that were outstanding at the time he took the receivership?

Mr. ANDERSON. Yes, sir.

Senator DIETERICH. How can you answer the question and say there was never over a million and some thousand outstanding at any time? I just cannot reconcile those two questions.

Mr. ANDERSON. Do you mean the amount of receiver income?

Senator DIETERICH. I am just taking that question. If I understand you aright, you say that he paid some $3,000,000 of outstanding trust notes, outstanding at the time he took the receivership?

Mr. ANDERSON. Yes.

Senator DIETERICH. That is correct? I am right in that understanding?

Mr. ANDERSON. Absolutely.

Senator DIETERICH. If there were $3,000,000 outstanding, then how can you answer the question now that the chairman has put—What was the greatest amount outstanding at any time?—and say that it was something over a million dollars?

Mr. ANDERSON. You are speaking of receiver's certificates?

Senator DIETERICH. I am talking about trust notes.

You said receiver certificates?

Senator SHIPSTEAD. Yes.

Senator DIETERICH. Oh, I beg your pardon; I thought you said trust notes.

Senator SHIPSTEAD. You were with the road when it went into receivership?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. Did you know at that time anything about the maintenance of the road and equipment or the physical condition of the road?

Mr. ANDERSON. Only to the extent that they are reflected in the figures.

Senator SHIPSTEAD. Just state what you know. If it is reflected in the figures, that is all right; state it that way.

You have the same system of bookkeeping and figuring depreciation and assets now as you had then, have you not?

Mr. ANDERSON. Yes, sir; exactly the same.

Senator MURPHY. That is the system prescribed by the Interstate Commerce Commission?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. Can you by those figures give us an idea of the comparative physical condition of the road at the time it went into receivership with its condition now?

Mr. ANDERSON. Pardon a moment of delay. I have these things here. [Referring to papers.]

Senator SHIPSTEAD. Have you got it?

Mr. ANDERSON. I have it showing the ledger or book value of the property, if that is what you mean—what we had.

Senator SHIPSTEAD. What you had to show?

Mr. ANDERSON. As of July 31, 1923, which is as close as I can get to the date of receivership, which was just a few days before. The book value of the property was $66,000,000. As of December 31, 1935, the book value was $64,474,000.

Senator SHIPSTEAD. That is, of the physical assets?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. According to your method of figuring?

Mr. ANDERSON. That is the property account.

Senator SHIPSTEAD. Is that the usual way for all railroads to figure?

Mr. ANDERSON. Yes, sir.

Senator MURPHY. May I ask what the depreciated value was?

Mr. ANDERSON. The books do not show the depreciated value of the property.

Senator MURPHY. Why not?

Mr. ANDERSON. Not of the fixed property.

Senator MURPHY. Why not?

Mr. ANDERSON. We do not accrue any depreciation on fixed property.

Senator MURPHY. Is not a building a fixed property?

Mr. ANDERSON. A building is a fixed property.

Senator MURPHY. Do you not depreciate your buildings?

Mr. ANDERSON. No, sir.

Senator MURPHY. From year to year?

Mr. ANDERSON. No, sir.

Senator SHIPSTEAD. No railroads do that?

Mr. ANDERSON. If they do, it is of their own accord, and I think there are very few that do depreciate fixed property. It has been before the Interstate Commerce Commission for many years, and they have issued an order as to both road and equipment, and they have postponed from time to time the effective dates of that order, insofar as fixed property is concerned, because they never could agree as to percentages that may be applied to the various portions of the country, except equipment that moves all over the country, on which they could fix percentages.

Senator MURPHY. What do you think of that kind of accounting?

Mr. ANDERSON. I think that every business should accrue depreciation.

Senator MURPHY. Certainly it is a physical fact that you cannot escape.

Mr. ANDERSON. I think that is recognized by everybody, but as to railroads that has got to be determined.

Senator MURPHY. I do not know why railroads did not do it in the first instance.

Mr. ANDERSON. When the Interstate Commerce Commission tells us to accrue interest and depreciation, we will, because we keep our books the way they tell us to.

Senator MURPHY. The Commission does not do that in its prescribed method of accounting?

Mr. ANDERSON. No.

Senator MURPHY. How does it treat repairs to the property in its accounting method?

Mr. ANDERSON. It is charged to operating expenses.

Senator MURPHY. How does it treat renewals?

Mr. ANDERSON. When renewed in kind, charged to operating expenses; where there is any betterment involved, it is charged to capital account. That is, the betterment portion only is charged to capital account.

Senator SHIPSTEAD. This system of bookkeeping cannot very well be used as a basis for the actual physical condition of the property new and in 1923?

Mr. ANDERSON. No, sir.

Senator SHIPSTEAD. Then we will drop that.

Senator MURPHY. Senator, it seems to me, if you please, to be a rather relevant fact.

If you were to make the assertion that the value of these properties was $66,000,000, it would be an obvious absurdity unless you took into account elements of going value. Anyone with common sense would ask what the depreciated value of these properties was. Then other factors would enter into consideration after that. It seems to me that we should have some idea of what the depreciated values of these properties were on these respective dates, particularly as of this date.

I am deceiving somebody, Senator, if I make the statement on the floor of the Senate that this property had a value of $66,474,000 as of 1935. It does not have that value. It has that book value, but it has not that depreciated value.

Senator SHIPSTEAD. That is fixed property? It does not include equipment?

Mr. ANDERSON. Yes, it does; all equipment.

Senator SHIPSTEAD. Have you not charged off depreciation?

Mr. ANDERSON. Yes; we have, on equipment.

Senator SHIPSTEAD. That is what I had in mind.

Mr. ANDERSON. I thought you had reference to property all over the railroad.

Senator MURPHY. No, Senator, the book value of the fixed assets is what you asked for.

Mr. ANDERSON. That is all the property of the railroad—all the fixed property and rolling stock.

Senator MURPHY. Every bit of property, and not subjecting any of it to depreciation

Mr. ANDERSON. Oh, yes; rolling stock.

Senator SHIPSTEAD. How much have you paid to account for depreciation during the receivership?

Senator MURPHY. You made a statement to me that there was no depreciation on this property.

Mr. ANDERSON. You mentioned buildings, and that is what I thought you were talking about.

Senator MURPHY. That is what you said this account was.

Mr. ANDERSON. No; that is all property.

Senator MURPHY. I asked you what you understood by those assets.

Senator BENSON. The figures you are using are the same figures arrived at in the same manner in which all other railroads arrive at similar figures?

Mr. ANDERSON. Yes, sir; that is the book value of all property. If you are speaking of equipment, I can give you the book value of equipment and the depreciated value of equipment.

Senator BENSON. These figures are arrived at as the Interstate Commerce Commission requires that you arrive at them?

Mr. ANDERSON. Yes, sir.

Senator BENSON. In railroad circles everyone understands that they are arrived at in that particular method?

Mr. ANDERSON. Yes, sir.

Senator BENSON. So there is no deception about your figures as contrasted with figures of other railroads, is there?

Mr. ANDERSON. Not at all.

Senator MURPHY. But this fact remains, nevertheless, that so much of this book value that is represented in real estate and buildings or assets which you have not depreciated would not be a fair figure of its value today?

Mr. ANDERSON. I would not pay that much for it, nor would anybody else.

Senator MURPHY. In an accounting way it would not be a fair value?

Mr. ANDERSON. No.

Senator BENSON. Whether or not it is fair, it is the system used by your railroad and by every other railroad in the United States and it is the system set up by the Interstate Commerce Commission?

Mr. ANDERSON. Yes.

Senator MURPHY. Now, would you let us have the value of the assets that you have depreciated?

Senator BENSON. Does the Supreme Court of the United States have a separate method of evaluating railroads?

Mr. ANDERSON. The Supreme Court?

Senator BENSON. Yes.

Mr. ANDERSON. I don't know. The depreciated value of equipment as of December 31, 1935, was approximately $4,500,000.

Senator SHIPSTEAD. Just what do you mean by depreciated value? Has it depreciated that much?

Mr. ANDERSON. In determining the depreciated value of equipment we apply to the book value of the equipment the depreciation rates recently prescribed by the Interstate Commerce Commission. We arrive at a depreciated value on that basis.

Senator SHIPSTEAD. By that are we to understand that $4,500,000 is the actual value now of equipment?

Mr. ANDERSON. As determined according to the records.

Senator MURPHY. The point about it being that it may have depreciated really more or less, but this is the regular depreciation method prescribed by the Commission?

Mr. ANDERSON. Yes; those are very recent percentages. In fact, they were made effective January 1, 1935.

Senator MURPHY. If it varies from your figure at all, it will be because the rate of depreciation can never be determined with absolute exactness?

Mr. ANDERSON. That is right.

Senator SHIPSTEAD. When you figure the net income of the receiver, is that figured after depreciation?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. What was the depreciation amount during the receivership?

Mr. ANDERSON. Depreciation amount during the receivership was $4,966,000.

Senator SHIPSTEAD. What amount was spent during the receivership by the receiver for new equipment?

Mr. ANDERSON. He spent $4,931,000 for new equipment, including also the money which was paid on prior-to-receivership-equipment trust obligations taken over by the receiver.

Senator SHIPSTEAD. Then the figures we have here include interest on equipment trust notes?

Mr. ANDERSON. No interest; that is just the principal. Interest is charged up to current operations.

Senator SHIPSTEAD. Your approximate depreciated value of equipment as of December 1935 is $4,500,000?

Mr. ANDERSON. Yes, sir.

Senator MURPHY. Notwithstanding your owing $4,431,000 for new equipment?

Mr. ANDERSON. That figure—you are referring to the Senator's remark about new equipment purchased?

Senator MURPHY. Yes.

Mr. ANDERSON. That figure was $4,931,000 and included not only new equipment but also the moneys which were paid by the receiver on the principal portion of the equipment trust notes taken over by him at the beginning of the receivership.

Senator SHIPSTEAD. The depreciation of the equipment during the receivership period was $4,966,000, was it not?

Mr. ANDERSON. That is right.

Senator SHIPSTEAD. As of December 31, 1935, it was $4,500,000?

Mr. ANDERSON. That is the depreciated value of the equipment remaining available for service.

Senator MURPHY. Is this depreciated value of equipment as of 1935, stated to be $4,500,000, included in your assets of $66,000,000?

Mr. ANDERSON. Yes.

Senator MURPHY. That is the only thing you would subtract from that $66,000,000?

Mr. ANDERSON. No; that $66,000,000—or $64,000,000, I think, as of 1935—the book value on that equipment is about $10,000,000. The $4,500,000 represents depreciated value of original cost of equipment, of which it is $10,000,000. In other words, that $10,000,000 has depreciated down to $4,500,000.

Senator MURPHY. That is not quite an answer to what I had in mind and what I wanted to develop.

This depreciated value of equipment is in the $66,000,000?

Mr. ANDERSON. Yes.

Senator MURPHY. It is in there as a $10,000,000 item?

Mr. ANDERSON. Yes, sir.

Senator MURPHY. So, arriving at the value of the other assets than equipment assets, you get a figure of $56,000,000?

Mr. ANDERSON. You are speaking first of the $66,000,000?

Senator MURPHY. That is the book value as you gave it to me. Well, it is $64,000,000.

That $4,500,000 is in that book value as a $10,000,000 item?

Mr. ANDERSON. Yes, sir.

Senator MURPHY. When I subtract this $10,000,000 from the $64,474,000, that represents book value of nondepreciated assets?

Mr. ANDERSON. Yes, sir.

Senator MURPHY. Those nondepreciated assets are your lands and your buildings?

Mr. ANDERSON. Yes, sir.

Senator MURPHY. Of course, it would be a very considerable accounting task to go on back and take every item that has been carried to capital since 1923 and depreciate that—or would it be? Have you carried to capital any of the depreciable assets as you conduct your bookkeeping?

Mr. ANDERSON. I do not quite understand your question.

Senator MURPHY. Let us put it this way. Have you bought any land and put up any buildings since your property went into receivership?

Mr. ANDERSON. Yes; we have.

Senator MURPHY. Would there be many of those items during the receivership?

Mr. ANDERSON. We have expended for additions and betterments to the property, and for capital account other than equipment, $2,442,000.

Senator MURPHY. Have you disposed of any of the properties?

Mr. ANDERSON. Yes, sir.

Senator MURPHY. Would it be much of a job for you to figure the accumulated depreciation on those properties? Of course, it would. You would have to go back to the beginning. It would be a tremendous task.

Mr. ANDERSON. If that could be figured, the railroads would be figuring depreciation on their fixed property.

Senator MURPHY. Do you think they would?

Mr. ANDERSON. Why, certainly; and there is where lies the reason why they are not accruing depreciation. They cannot get together on it. I do not know whether bridges that are renewed from time to time, as necessary, are going to last 50 years or 100 years. There are various kinds of property that depreciate at different rates, so to speak.

Senator MURPHY. I understand all that, but the question is, How much of a task would it be to depreciate those properties? What I should like really to arrive at is the depreciated value of your properties. You would not have to depreciate your land, because land does not depreciate. I should like to know what they are offering $7,500,000 for at its depreciated value.

Mr. ANDERSON. You understand that I am an accountant, and if anybody can give me the percentages of depreciation I can figure the depreciated value; but I have no knowledge whatever of any depreciation rates applying to fixed property.

Senator MURPHY. When you set up depreciation charges under the income-tax law, you have to determine on some method of depreciation, and no matter what rate is fixed, it is an inaccurate rate necessarily, because under varying conditions the rates will vary. You have bridges along your railroad that have been in existence for so many years—steel bridges, wooden bridges——

Mr. ANDERSON (interposing). But in a sense we are charging depreciation to the extent of renewal expenses in kind. For instance, a bridge that is rebuilt, so that today you have a brand new bridge there. The entire cost of rebuilding that bridge is in operating expenses except as evident in the improvement portion. You have a new bridge that was built first 50 years ago.

Senator MURPHY. You would have to go into expense and carry that all back into capital account and then depreciate it.

Senator SHIPSTEAD. Are you able to tell us whether the maintenance of road has been kept up during the receivership?

Mr. ANDERSON. It would appear from the figures that the road has been well maintained.

Senator SHIPSTEAD. Before we go any further, you mentioned that $2,442,000 had been added to capital account. Was that taken out of operating income?

Mr. ANDERSON. Yes; that was spent out of the same cash drawer as other expenses were paid.

Senator SHIPSTEAD. That is, additions to the property?

Mr. ANDERSON. Additions and betterments to the property.

Senator SHIPSTEAD. What was that $3,041,000 that you said you paid on trust obligations, on equipment trust notes?

Mr. ANDERSON. They were outstanding but unmatured at the beginning of receivership.

Senator SHIPSTEAD. Then you paid $2,442,000. What was that for?

Mr. ANDERSON. That was for additions and betterments to all kinds of fixed property.

Senator SHIPSTEAD. That $244,000,000?

Mr. ANDERSON. $2,442,000.

Senator SHIPSTEAD. What was that for?

Mr. ANDERSON. Additions and betterments to all kinds of fixed property.

Senator SHIPSTEAD. That is what went into capital account?

Mr. ANDERSON. That is what went into capital account.

Senator SHIPSTEAD. That makes a total of $5,464,000?

Mr. ANDERSON. Approximately.

Senator SHIPSTEAD. Of obligations paid, accruing before receivership, and added to capital?

Mr. ANDERSON. During receivership.

Senator SHIPSTEAD. During the receivership?

Mr. ANDERSON. That is right.

Senator MURPHY. What was the date when valuations were fixed upon the railroads for rate-making purposes?

Mr. ANDERSON. I recall the date, but I can't give you any more than that. The date was June 30, 1917.

Senator MURPHY. That antedated the receivership?

Mr. ANDERSON. Yes.

Senator MURPHY. Have you any idea of what the relation of that valuation to your book value as of that date was?

Mr. ANDERSON. It was less.

Senator MURPHY. Less than your book value?

Mr. ANDERSON. Not to such a great amount.

Senator MURPHY. Did they attempt to go into capital account to arrive at that, or did they just make the physical appraisement?

Mr. ANDERSON. I think it was both. I know they were delving into the old records to get the original cost. As to how they valued those figures in arriving at their inventory, I don't know; but I know they developed all kinds of figures while going through all the old figures.

Senator MURPHY. So you do not have any figure today that would relate to this $64,000,000? In the absence of any depreciation there, I was just trying to reach it.

Mr. ANDERSON. None other than the Interstate Commerce Commission's valuation of 1917 plus additions and betterments that have been made since that time.

Senator MURPHY. Is the Interstate Commerce Commission fully apprised of the cost of those additions and betterments?

Mr. ANDERSON. Oh, yes; annual reports are rendered.

Senator MURPHY. I thought so; so that it could be determined; but that would have to be taken rather than your book value?

Mr. ANDERSON. Yes.

Senator MURPHY. There is this about it, Senator: As I look at it now, they are in just as much a bombproof position now when they say this road is worth $64,000,000 as is the fellow who says it is not worth $64,000,000.

Senator BENSON. Has any estimate been made of the cost of reproducing a new railroad such as the Minneapolis & St. Louis Railroad?

Mr. ANDERSON. The Interstate Commerce Commission—this is just a vague recollection—when the Interstate Commerce Commission made it valuation of 1917, it also considered the reproduction new less depreciation. Other than that, I don't know.

Senator BENSON. That figure is available for the cost of reproducing the railroad less depreciation at that time?

Mr. ANDERSON. Yes.

Senator BENSON. By adding to that the betterments and deducting the depreciation, you should, if the figure that you originally started with is anywhere near correct, have a reasonable figure to do it, should you not?

Mr. ANDERSON. Except that you would have to determine by some method or other the depreciation upon the additions and betterments made since that time.

Senator BENSON. They have that figure, or you have it, or the I. C. C. has it, for your railroad, the same as any other railroad, so there is no mystery about that.

Mr. ANDERSON. None at all.

Senator BENSON. That is, contrasting your railroad with other railroads.

Mr. ANDERSON. There is no mystery about it at all. They are all governed by the same body as to amount.

Senator SHIPSTEAD. What was the average number of employees employed by the Minneapolis & St. Louis in 1935?

Mr. ANDERSON. We had an average of 3,068 employees.

Senator SHIPSTEAD. What was the compensation? What did the railroad pay them?

Mr. ANDERSON. $4,687,000, in round figures.

Senator SHIPSTEAD. What was the number of employees employed at the time of the receivership—that is, for 1924 and 1925?

Mr. ANDERSON. 5,170 employees.

Senator SHIPSTEAD. What was the pay roll?

Mr. ANDERSON. $8,475,000.

Senator SHIPSTEAD. Can you tell me how many employees you have in the city of Minneapolis today and what the pay roll is?

Mr. ANDERSON. We have approximately 1,085 employees, and the annual pay roll is about $1,750,000.

Senator SHIPSTEAD. What about the other larger points that are served by the Minneapolis & St. Louis? Can you give us any round numbers of the number of men and women employed and the pay roll.

Mr. ANDERSON. Yes, sir. This is based on 1935?

Senator SHIPSTEAD. Yes.

Mr. ANDERSON. At Marshalltown, Iowa, 372 employees; $478,000 annual pay roll.

Senator SHIPSTEAD. That is one of the towns to be abandoned, is it?

Mr. ANDERSON. No, no; that is on the main line. These are just the larger towns on the railroad.

Senator SHIPSTEAD. That is right.

Mr. ANDERSON. Oskaloosa, Iowa, 230 employees; annual pay roll. $370,000.

Monmouth, Ill., 119 employees; annual pay roll, $117,000.

Fort Dodge, Iowa, 144 employees; annual pay roll, $238,000.

Albert Lea, Minn., 108 employees; annual poy roll, $158,000.

Do you wish to go below a hundred?

Senator SHIPSTEAD. You can put it into the record.

Can you tell us the amount of taxes paid in the various States by the Minneapolis & St. Louis, or the taxes paid as a going concern?

Mr. ANDERSON. Yes; by States.

Senator SHIPSTEAD. Yes.

Mr. ANDERSON. For the State of Minnesota, $150,000; for Iowa, $80,000; for South Dakota, $54,000; for Illinois, $28,000.

That is a total of $312,000, and those are the taxes payable in 1936 covering 1935 operations.

Senator SHIPSTEAD. The road's operating revenues increased in 1935 over 1934 by how much? I think you stated it, but I have forgotten.

Mr. ANDERSON. It was $96,707.

Senator SHIPSTEAD. And the net income?

Mr. ANDERSON. It increased $81,600, in round figures.

Senator SHIPSTEAD. The first 5 months of the year are usually the poorest time of the year for income for roads in that part of the country, are they not?

Mr. ANDERSON. I would say beyond that, Senator; I would say the first 7 months, until you get into the fall business.

Senator SHIPSTEAD. How does the income of the road compare in 1936 with 1935?

Mr. ANDERSON. Do you mean the net income?

Senator SHIPSTEAD. The gross income.

Mr. ANDERSON. Gross revenues in 1936 as compared with 1935?

Senator SHIPSTEAD. Yes.

Mr. ANDERSON. I have made an estimate.

Senator SHIPSTEAD. I mean so far as you have the figures. Do you have it for the first 3 months of 1936?

Mr. ANDERSON. I have the first 3 months of 1936.

Mr. ANDERSON. I have the first 3 months of 1936. It is $1,903,888 gross for the first 3 months of 1936.

Senator SHIPSTEAD. What was the figure?

Mr. ANDERSON. $1,903,888 gross.

Senator SHIPSTEAD. How does that compare with the first 3 months of 1935? It is about $300,000 more, is it not?

Mr. ANDERSON. That is my recollection. I was looking for the exact figure. It is $297,000 increase.

Senator SHIPSTEAD. This year, over 1935?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. In 1935 what was your net income, after paying all fixed charges except interest on the fixed debt?

Mr. ANDERSON. After paying all charges?

Senator SHIPSTEAD. Yes.

Mr. ANDERSON. In round figures, $40,000.

Senator SHIPSTEAD. What was the total gross income for 1935?

Mr. ANDERSON. $7,611,000.

Senator SHIPSTEAD. With your familiarity with the road, and based upon your analysis of the finances, having gotten rid of a lot of debts incurred prior to receivership, that the receiver had liquidated, is it your opinion that this road can continue to operate as a going concern and serve all these communities if it can attain an income of $8,000,000 or $8,200,000, if it does not have to take into account this overcapitalized fixed charge and debt structure? For instance, if you operate the road as one system, with the business that is now coming in and the business that you hope to get if we get rain and get crops out there, and recovery should finally come from around the corner, you ought to do better than in 1935, ought you not?

Mr. ANDERSON. There is no question about it, Senator.

Senator SHIPSTEAD. How much better do you think you have a right to anticipate?

Mr. ANDERSON. We have the first 3 months, actual, and I have just stated that the revenues have increased $297,000.

Senator MURPHY. May I suggest that at that point you add "despite the worst winter we have had in that section of the country in the history of the railroad"?

Mr. ANDERSON. Yes, sir.

Senator MURPHY. You have, nevertheless, had that increase in operating income?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. Your operating expenses must have been terrific this last winter on account of the heavy snow.

Mr. ANDERSON. Our operating expenses increased approximately $118,000.

Senator SHIPSTEAD. Over 1935?

Mr. ANDERSON. Yes; and yet our revenues increased $297,000.

Senator MURPHY. What are the principal explanations of the increase in earnings there? It is not, most obviously, due to a diminution of operating charges. What was the extraordinary tonnage that you got, if you remember?

Mr. ANDERSON. Principally general business.

Senator MURPHY. It was not coal? Was not coal a big item, to meet this extraordinary winter?

Mr. ANDERSON. There was probably some increase in coal, but this is more or less general business coming from all over the country, and moving over our line.

Senator SHIPSTEAD. Based upon the record of the road in 1935, and so far in 1936, and the general condition of the country and of the railroad, can you give us, on that basis, an estimate of what you think the gross revenues ought to be for the year 1936, based upon the gradual increase that has taken place since January 1, 1935?

Mr. ANDERSON. Yes, sir; I have made just such an estimate. I have estimated that the gross revenues for 1936 will amount to $8,819,888. That is an increase over 1935 of $1,209,000 in gross revenues.

Senator SHIPSTEAD. Have you made an estimate of the operating expense for the same period?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. What would that be?

Mr. ANDERSON. I estimate that the operating expenses will amount to $7,138,000, which is an increase of $375,000 over 1935.

Senator SHIPSTEAD. How much?

Mr. ANDERSON. An increase of $375,000.

Senator SHIPSTEAD. What was that operating expense?

Mr. ANDERSON. $7,138,000, which is an increase of $375,000 over 1935.

Senator MURPHY. Upon what do you base that estimate of increase?

Mr. ANDERSON. I estimate the freight revenues to increase 15 percent.

Senator MURPHY. As a result of general betterment in business?

Mr. ANDERSON. So far this year our freight revenues have increased better than 20 percent.

Senator SHIPSTEAD. In the slowest period of the year.

Mr. ANDERSON. In a slow period.

Senator MURPHY. Do you move much livestock?

Mr. ANDERSON. We have not been.

Senator MURPHY. I understand; but ordinarily do you move much?

Senator SHIPSTEAD. You moved some out last year and the year before.

Mr. ANDERSON. Two years ago there was a lot of it moved out, but it takes time to bring the livestock back into that country, and it

depends upon the truck activity as to whether we are going to get back what we used to have.

Senator MURPHY. You will have a lot more hogs this fall than you have had in the last couple of years.

Mr. ANDERSON. I hope so.

Senator SHIPSTEAD. Mr. Anderson, I am not sure that I got your estimate of the gross revenue. Was it $8,081,088?

Mr. ANDERSON. $8,819,888. Call it $8,820,000. In round figures, that is all right for an estimate.

Senator SHIPSTEAD. Give me the round figures.

Mr. ANDERSON. Revenues, $8,820,000; operating expenses, $7,138,000. That leaves a net revenue of $1,682,000.

Senator SHIPSTEAD. Yes. That would be the net operating revenue.

Mr. ANDERSON. That is the net revenue after the payment of operating expenses.

Senator SHIPSTEAD. After payment of operating expenses?

Mr. ANDERSON. Yes.

Senator SHIPSTEAD. What do you estimate will be your fixed charges that you will have to pay, not counting the interest on funded debt?

Mr. ANDERSON. We will have taxes to pay——

Senator SHIPSTEAD. Yes. Do you know what they are or will be?

Mr. ANDERSON. I will say approximately $514,000. We will have hire of equipment payments to make.

Senator SHIPSTEAD. You will have what?

Mr. ANDERSON. Hire of equipment. That is, equipment rentals of $537,000; and joint facility rentals—that is, the payments to other railroads for our joint use of their property—representing a net figure of $41,000. Then, after considering nonoperating income—that is, money that comes to us from the rental——

Senator SHIPSTEAD. What is the total?

Mr. ANDERSON. The net income available for interest and fixed charges would be $650,000.

Senator SHIPSTEAD. Does that include nonoperating income?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. What is tthat figure?

Mr. ANDERSON. $650,000. That will be available for interest charges.

Senator SHIPSTEAD. That is 5 percent on $13,000,000.

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. Do you think that is a reasonable estimate for this year?

Mr. ANDERSON. I have every reason to believe that it is. I think it is very conservative.

Senator SHIPSTEAD. If that railroad, in your opinion, can earn all its operating expenses and pay its fixed charges, outside of the present fixed funded debt, and pay 5 percent on $13,000,000, running during the part of the depression that is left, it would seem rather foolish to sell it for $7,200,000, would it not? If some method of reorganization could be accomplished whereby such a property could be saved to the bondholders, if your estimate should prove correct, the bondholders under that arrangement would get $13,000,000, would they not?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. If they could take over the property with a clear title and operate it.

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. From the increase in business that you have had, in view of the fact that the operating revenues in 1924 were 15 millions—and they were not less than 12 millions until the depression hit us in 1930; they were nearly 13 millions—what is your opinion as to the future prospects? This is figured on a gross revenue of about $8,800,000, is it not?

Mr. ANDERSON. Yes, sir.

Senator SHIPSTEAD. If the road, under proper management, not having to carry this burden of accumulated debt prior to receivership, and bills payable that they had to pay, could come back to a gross revenue of 12 millions, which it had in 1930, or to 14 millions, which it had in 1920, it could pay 5 percent on almost twice 13 millions, because it would have almost twice the gross revenue. Would that be a fair statement, or is that too strong? Would the operating expense increase out of proportion as the gross revenue went up, or would the ratio be about the same?

Mr. ANDERSON. No. The operating expenses will go up, but not in the same proportion that you have at the present time, because there is so much of our operating expense that is fixed, that will not fluctuate by reason of business going up or down.

Senator SHIPSTEAD. Then, as your gross revenues increase, operating expenses relatively decrease; that is, the proportion.

Mr. ANDERSON. Yes; surely.

Senator SHIPSTEAD. As the gross revenues increase, you ought to be able to make a better showing, proportionately and relatively.

Mr. ANDERSON. Most assuredly. I think that on a gross of 10 millions we should have an income available for interest and fixed charges of $1,100,000. That is equivalent to 5 percent on 20 millions.

Senator SHIPSTEAD. You know something about the general condition of the railroads in the Northwest. They all anticipate an increase when the so-called depression is over—whether we do away with it or not—but they hope and expect that conditions will improve, and these railroads that are in receivership——

Senator MURPHY. Conditions have improved tremendously.

Senator SHIPSTEAD. That is evident. The Minneapolis & St. Louis has as much right to believe that they will share in that increased revenue as any other railroad?

Mr. ANDERSON. I think that has been proven by recent operations.

Senator SHIPSTEAD. Do you know of any railroad that has a lower operating cost, in comparison to gross revenue, than the Minneapolis & St. Louis? You do not have to answer that if you do not want to.

Mr. ANDERSON. No; I do not know, offhand. I know that for the first 3 months of this year the Minneapolis & St. Louis has made a very favorable showing as compared with other railroads serving the same territory.

Senator SHIPSTEAD. I will just ask you one question and then I will be through. You do not have to answer it if you do not want to, but I am asking for your opinion. From what you know of this

railroad, and from what you know of its history, and what you know of that country out there, do you believe that this railroad, if properly reorganized and properly financed, can continue to operate and give service to those communities and keep these men employed that would be laid off, and pay its operating expenses and pay a fixed charge on a reasonable capitalization based upon its earnings, and not upon anything that may be sold to the public by investment bankers?

Mr. ANDERSON. I do. Sincerely, I do believe that the Minneapolis Railroad is a going concern and is making fine progress. There is a new spirit of enthusiasm on the railroad, if I may be permitted to say so. That is not casting any reflections on what has happened in the past at all. Everybody has his own opinion as to the policies to be inaugurated in the running of a railroad, but I want to say, and I want to go on record as saying, that this railroad is going ahead and is a going concern, and in my opinion can create a net earning sufficient to pay interest on a reasonable amount of indebtedness.

Senator MURPHY. Unfortunately, I have not been able to be present the whole time during these hearings. Very likely the testimony has been given, but I should like to be advised, if you can advise me, what the outstanding total of the bond issues is.

Mr. ANDERSON. I testified a while ago that the total long-term debt, at the beginning of the receivership——

Senator MURPHY. No; as of this time.

Mr. ANDERSON. About 44 millions of bonds and other long-term debt. There are two Government notes in there that are secured by bonds as collateral. I think it is fair to say 44 millions.

Senator MURPHY. What is to prevent the reorganization of this railroad under section 77 (b) of the Bankruptcy Act?

Mr. ANDERSON. I cannot answer that question.

Senator MURPHY. Of course, to your knowledge, other railroads have availed themselves of that section?

Mr. ANDERSON. I suppose, if the capital were available, that is what would happen.

Senator MURPHY. You would not need any capital to do it, as I understand it. For instance, the Great Western Railroad is one. It was testified here yesterday that there are four or five railroads now in receivership. I suppose most of them—possibly all of them—availed themselves of 77 (b). The Great Western is one such railroad. There they do not interfere with the amount of outstanding bonds, as I understand it, or interfere with the capital structure at all; but under the reorganization plan apply a definite percentage of the earnings to the bonds and make provision that earnings in excess of that shall go to stock.

Senator SHIPSTEAD. If, as, and when earned.

Senator MURPHY. Yes. One does not need to cut the capitalization—just make provision for these charges against earnings.

Senator SHIPSTEAD. May I interpose a remark? Is it not a pretty good idea to bury a corpse?

Senator MURPHY. Well, we are not burying the farmer corpses. How would you feel, for example, if you had put $5,000,000 into the Great Western——

Senator SHIPSTEAD. I am not talking about a railroad. I am talking about a debt that cannot be paid. It is like a corpse.

Senator MURPHY. Perhaps some of these farmers cannot pay their debt either, Senator. We are not letting them be buried.

Senator SHIPSTEAD. We have provided for readjustment of their debts, though, at lower interest rates.

Is it your opinion that this $74,000,000 of debts overhanging the Minneapolis & St. Louis has handicapped it in its operations, credit, and so forth? Call it a bonded debt—not the stock.

Mr. ANDERSON. I do not think it is affecting our current operations at all.

Senator SHIPSTEAD. You do not think so?

Mr. ANDERSON. No, sir.

Senator SHIPSTEAD. Would you leave that there, instead of reorganizing it?

Mr. ANDERSON. Oh, no; I think the thing to do——

Senator SHIPSTEAD. Put it through the wringer and save what you can?

Mr. ANDERSON. Surely. Start out with a clean slate. In my opinion that is the thing to do.

Senator SHIPSTEAD. Would it not be better for the road if those bondholders could reorganize the property on a capitalization on which the railroad can sustain fixed charges?

Mr. ANDERSON. From my viewpoint, yes.

Senator SHIPSTEAD. They would have an investment asset. Now they do not know what they have. Do you think that the railroad can sustain, by earnings, a capitalization based upon its earning power, or upon its net income, whatever that may be?

Mr. ANDERSON. If what has happened here in the past year may be significant of the future, I would say, "Yes; I think so."

Senator MURPHY. That is all predicated on the assumption that running it through the wringer is all that is necessary. Because you run it through the wringer once does not mean that you do not have to run it through the wringer again. The Milwaukee was run through the wringer once, and then run through the wringer a second time.

Mr. ANDERSON. We always have hopes.

Senator SHIPSTEAD. It all depends on the wringer. The ordinary wringer used by the courts has not done the railroads very much good. It has not squeezed out very much of the water.

Senator BENSON. Mr. Anderson, in the present cash position of the railroad, I presume you are discounting your bills?

Mr. ANDERSON. Yes; we are.

Senator BENSON. How long have you been doing that?

Mr. ANDERSON. Since last December.

Senator BENSON. Since the present receivers took over the management of this railroad, have you paid up old bills that had accumulated up until that time?

Mr. ANDERSON. Yes. In the spring of last year there were pretty close to half a million dollars' worth of unpaid vouchers on hand. We had no money, or insufficient funds to pay them. They have all been paid. We are paying our accounts currently. We are tak-

ing advantage of every discount that is offered. Our savings from that source amount to around $500 a month.

Senator BENSON. A little while back you estimated that the income for the railroad this year would increase—the earnings and the income.

Mr. ANDERSON. I did; yes, sir.

Senator BENSON. Do you know whether or not the railroads which make up the Associated Railways, Inc., have made any estimate as to whether or not their business would increase when they took over, for instance, this portion or that portion of the Minneapolis & St. Louis Railway?

Mr. ANDERSON. I really do not know. I know that in their application they have made estimates of the business they intend to do on the lines which each of them will acquire, and I think they have figured some increases from year to year. They made an estimate for a 5-year period.

Senator BENSON. In each one of those cases they have actually increased the business from year to year in their estimate, have they not?

Mr. ANDERSON. Yes; they have. That is my recollection, that they have shown some increases. As to the extent, I do not recall.

Senator BENSON. They built that up on a 5-year basis, as you say?

Mr. ANDERSON. Yes, sir.

Senator BENSON. That is all.

Senator SHIPSTEAD. Thank you very much.

(Thereupon the witness left the committee table.)

STATEMENT OF JOHN C. DeMAR, COMMERCE COUNSEL OF THE STATE OF IOWA, DES MOINES, IOWA

(The witness was duly sworn by the chairman of the subcommittee.)

Senator SHIPSTEAD. Please give the reporter your name, address, and occupation.

Mr. DeMAR. John C. DeMar, 5523 Grand Avenue, Des Moines, Iowa. I am a lawyer and hold an official position as commerce counsel of the State of Iowa.

Senator SHIPSTEAD. You are employed as commerce counsel?

Mr. DeMAR. That is correct; commerce counsel of the State of Iowa is the official title.

Senator SHIPSTEAD. What kind of an organization is that?

Mr. DeMAR. It is not an organization. It is a statutory office, creater by our statute some years ago.

Senator SHIPSTEAD. What are your duties?

Mr. DeMAR. My duties, briefly, are as follows:

I represent the railroad commission of the State. I appear for them in various proceedings. I am also enjoined by statute to represent the public in matters involving transportation.

Senator SHIPSTEAD. You are familiar with the transportation problems of Iowa and the railroad problems?

Mr. DeMAR. To a limited degree. My term of office began in July of last year, so that there are many matters that I do not profess to know about.

Senator SHIPSTEAD. Are you familiar with this application and its provisions, and how it will affect Iowa and the various communities?

Mr. DeMAR. I am familiar with the application and know some of the effects that it may have upon the State.

Senator SHIPSTEAD. Will you make a statement as to your knowledge of the application and the effect it may have on Iowa?

Mr. DeMAR. The witness who preceded me gave a list of the Iowa towns now located on the Minneapolis & St. Louis that would be without railroad facilities in the event that the plan proposed is approved by the Interstate Commerce Commission. The list as given by Mr. Sweet, a previous witness, is substantially correct, if not entirely so, with perhaps the exception that he included Dakota City, which is in fact part of the town of Humboldt, although under separate corporate organization. However, the people of Dakota City would be served, I suppose, the same as the town of Humboldt.

In the figures which I shall give I have included Emmons as a station in Iowa, inasmuch as it is on the Iowa-Minnesota line, and I will give some figures in relation to it.

I have made some investigation into the industries in these towns that are entirely or largely dependent upon railroad facilities for continuing. My investigation of this is not complete, but I think I can give the committee some information that will be of value to it.

There are 19 such towns or stations in Iowa that will be left without railroad facilities in the event the abandonments proposed are allowed. These are in addition to towns that are left without facilities by virtue of abandonments authorized by the Commission under application made by the receivers.

There are substantially 46 industries in those 19 towns that I consider as dependent upon the railroads for their operation. There are 20 grain elevators that are served by that road in the list of towns. There are 13 lumber and building-material yards. There are eight bulk gasoline stations and four livestock yards for loading on rails. That does not quite total 46. There are others that do not admit of that sort of classification. I have referred to these particular industries because I feel that they are dependent upon rails and cannot be served by other transportation agencies.

Senator SHIPSTEAD. How many of them?

Mr. DeMAR. Forty-six in all.

Senator SHIPSTEAD. All carrying heavy goods?

Mr. DeMAR. Yes.

Senator SHIPSTEAD. They could not be served by any other form of transportation?

Mr. DeMAR. Not well, in my judgment.

In addition to the ones I have listed, there are some operating farm machinery and implement houses that would be served—at a considerable disadvantage, in my judgment, yet might be served—by trucks or otherwise. I am not advised just what information the committee wants from me on this. I did not know I was to be a witness upon arrival here.

I think I might mention one other matter that the committee would want to know. Iowa has few north-and-south railroad lines. The Minneapolis & St. Louis, if you will examine the map, traverses a good bit of northwest Iowa, traveling in general in a southeasterly

direction through Oskaloosa, and then to the east, serving southeastern Iowa.

There is one other road that maintains, as a system, similar service, and that is the Rock Island. It also serves northwest Iowa, and traverses to the south or southeast, serving southern Iowa. I mention this fact by virtue of the intrastate rate structure. This, of course, is subject to change by our railroad commission, but, in general, intrastate rates in Iowa, for joint hauls, are based upon 80 percent of the charge for individual hauls of the joining roads. So that if a haul is made by two roads, the rate for the joint haul is determined by 80 percent of the charge each of the individual lines would make for the distance they make the haul, and if it were three lines, it would be on the same basis.

This results generally in a higher rate for joint hauls than for single-line hauls.

As I say, the rate structure in Iowa is generally upon this basis. That is not universally true. For instance, coal, as one of the commodities, is, upon a single- and joint-line haul, without variation in the rates.

Senator SHIPSTEAD. Does that rate include the switching and transfer charges?

Mr. DEMAR. No; it does not. Our grain rate is upon the basis that I have just referred to. This becomes important, in view of this fact. Coarse grains—corn and other grains—are produced in large amounts in northwest Iowa. Substantially one fourth of the State, the northwest part of the State, produces an excess or surplus of coarse grains, which must be shipped out of the State to some other destination where it will be fed.

Southeast Iowa is a good grazing country. It is a blue-grass country, and there are heavy feeders of livestock in southeast Iowa. As a general thing, southeast Iowa does not produce sufficient coarse grain to fatten its livestock, resulting in their going to other territories for corn and other coarse grain.

Senator SHIPSTEAD. Is that northwest Iowa?

Mr. DEMAR. That is southeast Iowa. As a result, there is a movement, and a very substantial movement, of corn from northwest Iowa to the southeastern part of the State for feeding purposes.

The Minneapolis & St. Louis affords, from the stations along its line in northwest Iowa, the opportunity of moving this grain single line to southeast Iowa.

I do not want to mislead this committee into believing that all coarse grain moves by rail. A very substantial part does move by truck. Some railroad men tell me that it all moves by truck. But I have not the records of the Minneapolis & St. Louis on grain movements, so I cannot give you the figures on that. I merely state this as a general reason for wanting to maintain north-and-south rail connections in the State.

Senator SHIPSTEAD. What is the traffic toward the Southwest?

Mr. DEMAR. Toward the Southwest?

Senator SHIPSTEAD. Yes; I have heard people talk about the Southwest gateway.

Mr. DEMAR. There is a grain movement in that direction, also, through Kansas City.

Senator SHIPSTEAD. Is it considerable?

Mr. DEMAR. Yes; there is considerable grain moving through Kansas City.

Senator MURPHY. However, the movement which the witness is describing, Senator, is a movement of grain that logically follows the Minneapolis & St. Louis Railroad. That is related to the point he is now making.

Mr. DEMAR. That is correct.

Senator MURPHY. Would you please go ahead?

Mr. DEMAR. I believe that concludes what I had to say in that respect.

Senator MURPHY. Did you develop that it would involve this joint rate, with the abolition of certain of these lines?

Mr. DEMAR. The proposed plan, of course, so breaks up the continuity of the Minneapolis & St. Louis line that it would no longer afford a single-land haul from northwest Iowa to southeast Iowa, or for any considerable distance.

A careful analysis of the plan will disclose that only small segments are being retained and operated by any one road. For example, under the plan, the Burlington will take over and operate the segment from Peoria to just beyond Oskaloosa; and these other lines take up the other portions, broken into about three fragments, between Oskaloosa and Minneapolis. The line extending from Des Moines to the northwest part of the State is broken up by abandonments, so that there are only short segments that will be operated at all, and they only as branches or stubs from the lines taken them over.

The map which is included in the application will clearly disclose that to you if you make an examination of that map.

Senator MURPHY. Do you have any figures on the movement of grain by rail from northern Iowa to southeastern Iowa points?

Mr. DEMAR. No, sir; I have no such figures.

Senator MURPHY. This develops a new aspect in this inquiry, the inevitable consequence of this dismemberment being to increase freight charges to these shipping farmers. What that would mean in additional freight rates would have to be figured, presumably, by some rate clerk. That is a distance not likely to be covered by trucks with corn. We have no truck lines devoting themselves to hauling corn.

Mr. DEMAR. Senator, that is not entirely the case. In the last few years there has been a considerable movement, even of corn, for distances as great as I have described.

Senator MURPHY. That is, during the period of the drought.

Mr. DEMAR. Yes.

Senator MURPHY. That was made necessary, really, by the drought.

Mr. DEMAR. It developed, at least, during that period, and I suppose was caused largely by reason of the drought. Many trucks went north, some from northern Missouri and some from Iowa, some of them hauling fence posts or coal north and returning with corn to their points of origin. These were, in fact, merchant truckers, who bought their own product and sold it again.

Senator MURPHY. What you say as to corn would be true, of course, as to any other commodity which might be shipped from northern Iowa points?

Mr. DEMAR. That is correct.

Senator MURPHY. Or, conversely, from southeastern Iowa points to northern Iowa points.

Mr. DEMAR. It would not be true of coal, because coal does not move under the same rate.

Senator MURPHY. Not on the same rate?

Mr. DEMAR. No, sir. Coal moves as a single-line, where it is a joint haul of two lines.

Senator MURPHY. Let me ask you if you are going to volunteer any more?

Mr. DEMAR. That is all.

Senator MURPHY. May I ask if the Iowa Railroad Commission has taken any formal action on this plan for dismemberment?

Mr. DEMAR. They have filed a petition of intervention with the Interstate Commerce Commission, shortly after the application was filed.

Senator MURPHY. You are speaking here with the authority of that commission?

Mr. DEMAR. That is correct. May I add this, that members of the commission have attended some of the hearings at Minneapolis. One member of the commission is here, by virtue, in part, of my call to appear here before this committee. Mr. Dunlap, of Ames, who is a member of that commission, is present here now.

Senator MURPHY. Then your protest against this is based upon the economic loss to Iowa from dismemberment and no compensating gain?

Mr. DEMAR. Based upon that in part. It is based also upon the loss to the various communities of all-rail service; and it is based upon the general protest of citizens along the line who feel that they would be better served by a single-line system. Our office has received, of course, copies of many petitions of intervention that have been filed and numerous letters from shippers and others who feel that they will be affected—I suppose to the number of two or three hundred.

Senator BENSON. I notice on this map that has been filed with the Commission that the Associated Railways propose to abandon the Minneapolis & St. Louis Railway from Fort Dodge, Iowa, to Albert Lea, Minn. That is correct, is it not?

Mr. DEMAR. Yes; that is correct.

Senator BENSON. Fort Dodge is an important city in Iowa, is it not?

Mr. DEMAR. Yes; and quite a distributing point.

Senator BENSON. That portion of the Minneapolis & St. Louis Railway is the most direct line, is it not, to the Twin Cities in Minnesota?

Mr. DEMAR. From Fort Dodge?

Senator BENSON. Yes.

Mr. DEMAR. That, I think, is correct.

Senator BENSON. And the Twin Cities are the two principal cities in Minnesota and the real metropolitan area there.

Mr. DEMAR. That is right.

Senator BENSON. Do you know of any particular reason why the Associated Railways should propose to abandon the most direct route between those two important points?

Mr. DEMAR. I would not know the reason, unless it could have been developed in part at the hearing at Minneapolis, which I attended with the exception of 1 day. It is not easy to determine from that evidence and an examination of the transcript just what may have prompted the Associated Railways in the selection and the rejection of mileage. I believe that was not made entirely plain by any witness, or by all the witnesses; yet, in general, their testimony was to the effect that they sought the lines that were of use and profitable, and that they took over such portions as they regarded as not profitable, as they could, by reason of their wanting to serve the communities; and they stated that they did take some mileage that they considered not advantageous to them, in order that they might continue the service. But as to the particular line, I have no reason for stating why it was set down for abandonment.

Senator BENSON. It goes through a very good portion of the State of Iowa, and certainly down to Albert Lea and north to Minneapolis and St. Paul, the most fertile part of Minnesota.

Mr. DEMAR. Much of the Iowa territory covered is of the highest degree of fertility.

Senator BENSON. I notice, too, that the Associated Railways propose to operate a short line from Huntington in Iowa to Terrill. That is a very short line. I would just estimate, looking at the map, that it is probably 12 miles. Would that be about correct?

Mr. DEMAR. The return to the questionnaire gives it. I have not the figures here. It is from 12 to 16 miles, I would estimate.

Senator BENSON. It just occurs to me, knowing little or nothing about the operation of a railroad, that it would not be practicable to operate a branch line 12 to 16 miles long. Have you any ideas as to why they would suggest such a thing?

Mr. DEMAR. The only suggestion made by their witnesses was that they desired to serve as much of the territory as they could, and that the different roads took over mileage that they did not especially care for with that in view. As I recall the testimony of the operating officer for the Rock Island, residing at Esthersville, in answer to a question either on direct or cross-examination, he stated that he did not think that it was a very practical operation. I may not have quoted him exactly, but that was the sense of it.

Senator BENSON. Then we will come down to Sioux Rapids, in Iowa—from there to Rembrandt. That is probably 4 or 5 miles, or 6 miles.

Mr. DEMAR. Perhaps so.

Senator BENSON. It certainly would not be practicable to operate a railroad branch line 6 miles in length.

Mr. DEMAR. May I say this: That the Milwaukee has already secured authority to take over the line from Storm Lake to Rembrandt, the mileage of the Minneapolis & St. Louis, and will begin operation there soon, if they have not already done so.

Senator BENSON. So that that will not be abandoned.

Mr. DEMAR. And I assume that from Rembrandt to Sioux Rapids there will be a modification of the plan of the Northwestern, since

their only purpose in going down that distance was to serve Rembrandt, as I understand it.

Senator BENSON. So that that probably will not be abandoned.

Mr. DEMAR. I assume from Sioux Rapids to Rembrandt will be abandoned, but from Storm Lake to Rembrandt will not.

Senator BENSON. Over at Ruthven I notice they propose to operate a stub or a short line, and abandon a portion of the line.

Mr. DEMAR. From Ruthven to Ayrshire is the line that you refer to?

Senator BENSON. Yes.

Mr. DEMAR. Yes.

Senator BENSON. So in several places in Iowa, and also in Minnesota, and particularly in South Dakota, do you suppose that later these railroads which acquire this property may find it to their advantage to make application to abandon those short lines that they now claim they are going to operate?

Mr. DEMAR. They recite in their application that much of the mileage is being taken over on trial, and that it may be found necessary later to make further application for abandonment.

Senator BENSON. I think that is all.

Mr. DEMAR. I might call attention to this: That the Rock Island, under the proposed plan, is to take over the mileage from its crossing with the Minneapolis & St. Louis to the town of Greenville. It appeared from the record at the Minneapolis hearing that the Rock Island has indicated that if this is assigned to them they will be compelled to file an application later for its abandonment.

Senator BENSON. Coming back to this abandonment of the road from Fort Dodge in Iowa to Albert Lea in Minnesota, do you suppose that the reason for that abandonment could be that these various railroads which go to make up the Associated Railways cannot agree upon who should have it?

Mr. DEMAR. I would only be guessing if I were to say that. I have heard that stated by others, but not by any railroad men.

Senator BENSON. Then, for all practical purposes, it is the shortest and most direct route between Fort Dodge in Iowa and Albert Lea, Minneapolis, and St. Paul, is it not?

Mr. DEMAR. I think that is correct.

Senator BENSON. Shorter and more direct than any other railroad?

Mr. DEMAR. I think that is right.

Senator BENSON. Certainly it ought to be of some value to one of the railroads operating in that territory, ought it not? In fact, it ought to be more important and more valuable than a good many of these stub lines that they propose to operate.

Mr. DEMAR. It would appear so to me; but I am not competent to pass upon that, Senator.

I might further say that my attention has been called by the traffic representative of the chamber of commerce at Fort Dodge to the serious disadvantage to which they would be put in reaching their trade area. An examination of the map showing the abandonments will clearly show to you that much of that territory would have to be reached by movement over two or three lines that now they can reach by the Minneapolis & St. Louis line. It was indicated by this traffic officer that they would have great difficulty in reaching by rail the natural trade area of Fort Dodge.

Senator MURPHY. With respect to the short-line abandonment from Newton to New Sharon, Newton is the site of several washing-machine manufacturers. Would that seriously affect those washing-machine manufacturers?

Mr. DEMAR. I doubt it. I do not believe it would.

Senator MURPHY. Has your Commission gone into the matter of that abandonment?

Mr. DEMAR. No; it has not. My office is now making an investigation of all the abandonments.

I might say this, Senator, in connection with that abandonment: In the application and return to the questionnaire reference is made to the fact that the Rock Island maintains a line south from Newton to Reasnor, and that towns such as Murphy and Kilduff could be serviced by the Rock Island. Recently I attended a hearing wherein the Rock Island sought to abandon the line from Newton to Reasnor, and in their return to that questionnaire they called attention to the fact that it could be served by the Minneapolis & St. Louis, just to the east of it.

Senator MURPHY. Did you and Mr. Dunlap expect to return home together?

Mr. DEMAR. Yes; we are going back together, unless we are wanted longer.

Senator MURPHY. Mr. Dunlap, did you wish to make a statement?

Mr. DUNLAP. I feel that Mr. DeMar has covered the subject very well on behalf of the Railroad Commission.

Senator SHIPSTEAD. The committee will stand adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 5:30 p. m., the subcommittee adjourned to meet tomorrow, Friday, May 15, 1936, at 10 a. m.)

PROPOSED SALE OF MINNEAPOLIS & ST. LOUIS RAILROAD

FRIDAY, MAY 15, 1936

UNITED STATES SENATE,
SUBCOMMITTEE OF THE
COMMITTEE ON INTERSTATE COMMERCE,
Washington, D. C.

The subcommittee met at 10 a. m. in the caucus room, Senate Office Building, pursuant to adjournment on yesterday, Senator Henrik Shipstead (chairman of the subcommittee) presiding.

Present: Senators Shipstead (chairman of the subcommittee), Dieterich, Truman, and Benson.

Senator SHIPSTEAD. The subcommittee will come to order. The first witness will be Mr. Hustleby. Will you stand and be sworn?

TESTIMONY OF WILLIAM E. HUSTLEBY, SECRETARY, RAILROAD AND WAREHOUSE COMMISSION OF MINNESOTA, ST. PAUL, MINN.

(The witness was duly sworn by the chairman of the subcommittee.)

Senator SHIPSTEAD. State your name.

Mr. HUSTLEBY. William E. Hustleby.

Senator SHIPSTEAD. Where do you live?

Mr. HUSTLEBY. St. Paul, Minn.

Senator SHIPSTEAD. And what is your occupation?

Mr. HUSTLEBY. I am the executive secretary and director, motor bus and truck transportation for the Railroad and Warehouse Commission for the State of Minnesota.

Senator SHIPSTEAD. I understand you have a statement to make on behalf of the commission relative to this matter before the committee?

Mr. HUSTLEBY. Yes, sir.

Senator SHIPSTEAD. Will you proceed to make your statement.

Mr. HUSTLEBY. The Minnesota commission, composed of Frank W. Matson, Knud Wefald, and Charles Munn, have intervened in this proceeding before the Interstate Commerce Commission in opposition to the petition of the Associated Railways Co., the Minnesota commission being the State body having jurisdiction over railroads and certain other utilities and authorized by the statutes of the State of Minnesota to appear in all such matters which are of public interest to the citizens of the State.

I am also authorized to appear for the Board of Railroad Commissioners of the State of South Dakota, their position being sub-

stantially identical with that of the Minnesota commission in the proceeding.

The Minnesota commission will present detailed evidence in the Interstate Commerce Commission proceeding at Minneapolis commencing June 15. I am only in a position at this time to state generally the attitude of the Minnesota commission in this proceeding. The Minnesota commission feels that the Minneapolis & St. Louis Railroad Co. can continue operations and pay its way as a railroad line, and detailed evidence along that line will, of course, be presented to the Interstate Commerce Commission. An analysis is being made now of the operating revenues and expenses of the carrier.

The Minnesota commission is very much interested in retaining this line, if possible, in the interest of the railroad employees, which we feel would be affected by the abandonment; the general office force, consisting of some 350 employees; and all employees of the lines proposed to be abandoned, such as station employees, trackmen, and so forth.

In Minnesota it is proposed to abandon 65 miles of trackage. In South Dakota it is proposed to abandon 170 miles of trackage. The abandonment of that 65 miles of trackage in Minnesta would leave seven Minnesota towns without railroad service of any nature whatsoever. The names of those towns were given by Mr. Sweet, both in Minnesota and in South Dakota.

There would be 23 industries affected by the abandonment of railroad service to those seven Minnesota towns, and 42 industries so far as the South Dakota communities are involved. In Minnesota, of those 23 industries, 3 would be grain elevators, 5 lumber and coal yards, and 6 petroleum-products dealers.

In South Dakota, of the 42 industries left without railroad service, 26 would consist of grain elevators, 4 lumber and coal yards, and 10 petroleum stations.

The Minnesota commission believes that some more reasonable plan could be worked out than that proposed by the Associated Railways Co. I am not in a position to state what sort of a plan the Minnesota commission would advance, but I believe something along that line will be stated at the Interstate Commerce Commission hearings.

Senator SHIPSTEAD. How long would it take them to get that information together and get that statement? We may want that here.

Mr. HUSTLEBY. I think, Senator, that if the commission in St. Paul is requested, they could submit something within a very few days. I do not want to be too definite on that, because so far as I know they have not yet arrived at any conclusion in that respect.

I have no other general statement to make at this time.

Senator SHIPSTEAD. Thank you, Mr. Hustleby.

(The witness left the stand.)

Senator SHIPSTEAD. I have a communication here from a member of the Railroad and Warehouse Commission of the State of Minnesota, Mr. Knud Wefald. He has been prevented by sickness from appearing at this hearing, and he wanted this statement to be placed in the record as his view on the subject. I ask that it be printed in the record at this point.

(The statement is as follows:)

STATEMENT BY THE HONORABLE KNUD WEFALD, RAILROAD AND WAREHOUSE COMMISSIONER OF THE STATE OF MINNESOTA AND FORMER UNITED STATES CONGRESSMAN, RELATIVE TO HIS VIEWS ON THE DISMEMBERMENT OF THE MINNEAPOLIS & ST. LOUIS RAILROAD SYSTEM TO BE INVESTIGATED BY A SUBCOMMITTEE OF THE INTERSTATE COMMERCE COMMITTEE OF THE SENATE ON MAY 13, 1936

ST. PAUL, MINN., *May 12, 1936.*

Senator HENRIK SHIPSTEAD,
Chairman of the Investigating Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR SHIPSTEAD: As sickness has upset my plans so that I will not be able to appear before your committee as per your request and in accordance with the wishes expressed on the part of organized railroad labor and representatives of many towns and communities that will be adversely affected if the Minneapolis & St. Louis dismemberment is allowed, I hope that you will accept this statement as a statement I would have made had I been able to be present at the hearing.

Your examination of witnesses will be so minute, I am sure, and will deal with so many figures that I shall use little or no figures in this statement.

One of the great problems that must be solved under the present New Deal is the railroad problem. Speaking in a large sense, nearly every railroad in the land is bankrupt. While some of them have been pulling a little nearer out of the red during the last couple of years, it is absolutely certain that there will be no solution of the railroad problem unless by some way a reduction in the capital set-up is made and made very soon, and the capitalization figure brought down to a point where railroad earnings can begin to pay a dividend—a small one—upon the capital set-up. Otherwise, within not many years, I care not what party is in power, the Government will be obliged to take over the railroads of the country and operate them, not for profit but for the use and service of the people as a whole, at the lowest possible workable freight and passenger rates. I have not met an honest railroad attorney, rate expert, or high executive officer except in private conversation he has admitted to me that he is afraid that I am right, after having had the situation stated to him as I have just stated it here.

I do not believe that either the present national administration or a majority of the House and Senate of Congress would have the courage to put over such a plan, nor do I believe that the majority of them have yet come to see the railroad situation in its right light.

Among the railroads operating in Minnesota, railroads engaged in general traffic, I believe only one road—the Great Northern—made money last year, and that was on account of increased iron-ore traffic. I think it will be shown to you in this hearing by the Minneapolis & St. Louis executives that proportionately the Minneapolis & St. Louis Railroad did as well last year, and is doing as well now, as any of the railroads set to devour this system, or any of the roads operating in the States surrounding that territory where the Minneapolis & St. Louis Railroad system operates.

You will undoubtedly go into the past history of the Minneapolis & St. Louis Railroad Co. and bring out the facts relative to the financial wrecking of the system in the first place, possibly some mistakes in the planning and building of the system, but these facts will stand out that the Minneapolis & St. Louis Railroad system now owes the Government from $7,000,000 to $8,000,000, while the seven or eight railroad systems that want to devour the Minneapolis & St. Louis system owe the Government from $70,000,000 to $90,000,000. That will mean that on an average these other railroad systems owe the Government just as much, each and every one of them, as the Minneapolis & St. Louis system will owe individually.

Much criticism is being leveled against the Honorable Jesse H. Jones, chief of the Reconstruction Finance Bureau, for the way he has handled these loans to the railroads and for the solution that he has worked out of the Minneapolis & St. Louis muddle. The Middle West looked to Mr. Jones with high hopes and great expectations when he was placed in charge of the tremendous responsibility that will rest upon him. Out in the Middle West there was not so much said when one loan after another was extended to the railroads, but when this generous gentleman, whose role had been to play Santa Claus to the railroads among

other big industries with the people's money at a low rate of interest, became obsessed with the idea that this, as it was thought, comparatively small railroad system should be sacrificed to the insatiable greed of its bigger neighbors, the people of the Middle West began to figure that there was something wrong.

It would seem to me that the main duty of your investigating committee would be to go to the bottom of the railroad financing, both by private capital and from Government munificence, and your committee will probably find that in railroad financing the cards are dealt out among the players deep down in dark basements and that very little of these transactions see the light of day until they are consummated and fully saddled upon the backs of the people. The way that these matters have been handled upon the part of the Government is a shame and a disgrace—that the comparatively strong should be assisted and the comparatively weak be trampled in the mud. If the Minneapolis & St. Louis system is given the right kind of assistance by the Government now it will work out of its dilemma quickly and on a more lasting basis than any other railroad system or like industry in the United States.

Through its reverses and the depression, and possibly to some extent through previous management, the capitalization of this system is practically wiped out. No one holding a Minneapolis & St. Louis bond can ever expect to obtain a nickel for it. But, with the proper Government assistance, this system can start out as from new again.

I understand that the value of the property under the Interstate Commerce Commission estimates is supposed to run between $30,000,000 and $40,000,000. A new corporation could be formed, the Government furnishing the capital of from $10,000,000 to $15,000,000, and upon such a capitalization, with the management as is in charge at the present time, the whole system could be kept intact, the whole working force be continuously employed, transportation rates could be even lowered a little, and yet the system would pay a reasonable return upon its capitalization.

Should there be any doubt in the minds of the members of your investigating committee as to the value of keeping the Minneapolis & St. Louis Railroad system intact for the benefit of the country that it serves, I would suggest that your committee take a trip out West here and go over the whole system as a committee of 30 people interested in the matter did between 2 and 3 weeks ago. Your committee would find that this system is located right in the heart of the farming country of the United States. I was a member of the recent inspection group that traveled this system over as much of its trackage as could be covered in the time at our disposal. I think there is no other farming land in the United States covering such a wide area that will compare to the lands of southern Minnesota and the northern more than half of the State of Iowa.

The parties on this trip stopped in quite a few cities in Iowa and Minnesota and met delegations from such cities and asked for more light on this question. The keenest interest was exhibited at every place where we called, and the party of investigators wholeheartedly seemed to agree with the local people as to the calamity it would prove not only to such towns but to the surrounding country should the dismemberment of the Minneapolis & St. Louis system be allowed.

I believe that in ordinary good years the farm lands making up the territory from which this road draws its business produces more farm products than any territory of like size in the world and, contrary to the testimony offered by the Reconstruction Finance Corporation expert, Mr. John W. Barriger, the track and roadbed seemed to be in excellent condition, with the exception of a few miles where new ties and ballast were on hand, it seemed to me, at all such places to remedy the conditions where they were not 100 percent good.

I do not think that I am putting it too strongly if I say that this Minneapolis & St. Louis Railroad system is perhaps the best single-track railroad system in the United States today. Over most of the trackage our train made wonderful speed. I personally noticed a speed of as high as 70 miles per hour, and the ride seemed to be as smooth as on any of the other railroad systems in the Middle West.

There is absolutely no excuse for the proposed highjacking of the Minneapolis & St. Louis system. If it is consummated it ought to be placed in a class with kidnaping and broad-daylight robbery. The pay roll of this railroad system, I understand, is the second largest in the city of Minneapolis. The working force of the company is, I believe, 3,500 for the whole system. In my capacity as a member of the railroad and warehouse commission, I have come in very close

contact with organized railroad labor since I came on the commission in 1933. To the best of my knowledge, there exists a very fine and friendly spirit between the railroad workers and the management of the system.

That the feeling against the proposed dismemberment has quite wide ramifications can be shown by the fact that the Legislature of the State of Minnesota, in its 1935–36 special session, voted $5,000 to be spent by the railroad and warehouse commission of the State in helping out the defense of the Minneapolis & St. Louis Railroad system. If the dismemberment is carried out, there will be serious disarrangement in business in the towns tributary to this railroad. There will be great losses in many towns to the people engaged in various kinds of business in the deterioration of the value of their properties, and losses in value of residence property belonging to the average citizen will run up into the millions of dollars. Quite a few towns, I understand, will be wiped off the map. That may not bring any pangs of conscience to the overlords of the so-called associated railroads, but it will mean tears and grief and losses to those upon whom the losses will fall.

The time has come when the United States Government and the United States financiers, including railroad bankers, must begin to use common sense. Unfortunately, war inflation struck every country in the world, and following after the depression a crisis likewise struck every country in the world, but, in truly enlightened countries this question of overcapitalization has been courageously met. Following the war, Austria and Germany borrowed a lot of money from the Wall Street international bankers with which to build communal apartment houses for the use of the middle classes. Bonds were sold in the United States and the savings of many poor people were washed away in these undertakings. American bankers knew very well that such bonds would never be paid, but they carried a high rate of interest and that is how the gullible American public bought them. Our people have suffered losses in the billions of dollars through these deeply-laid financial schemes.

In the city of Oslo, Norway, the city government embarked upon an ambitious communal building program to provide good and nice living quarters at a low monthly rental for people of moderate means and for workers. The result was there the same as it had been in other places when the deflation struck—that it was impossible to earn even interest upon the investment. Courageous, the city government voted to cut the capitalization in two, and for the last few years these undertakings have paid their way, paid interest upon the investment, and a 5-percent profit besides. As late as last month, in watching the Scandinavian newspapers, I saw where a large cooperative dairy company had cut the value of its bonds nearly 50 percent, and enough new, real money was put into it to put the business back on its feet again.

American railroads cannot survive; they can never in God's world pay a dividend on capitalization so highly watered as it is yet, and even when certain bigger systems can absorb a system such as the Minneapolis & St. Louis system, and get it almost as a gift, they cannot make a success of that either until the whole question of railroad finance is radically changed.

The territory now served by the Minneapolis & St. Louis Railroad system will not be properly served if the dismemberment of the above system is put over. If this raw deal is allowed at this time, it will within a very few years be the beginning of chaos in the American railroad world. If the principle is once established that with Government assistance the big shall be allowed to eat the weak, there will be plenty weak systems for the strong ones to eat, and, without any change in the financial policy of the railroads there will be in a very few years only three or four big systems that will bleed us to the last drop of blood.

Gentlemen of the committee, I hope that you will do justice to the great farming country of the Middle West that most all of you are familiar with.

Very respectfully,

KNUD WEFALD, *Commissioner.*

P. S.—On high authority in research in the economic field it has been stated that in June 1933, shortly after the present national administration had been inducted into power, the equities owned by all the railroads in the land in railroad stock were about $2,000,000,000, and that these could have been bought for something less than $2,000,000,000 cash.

At that time either Government ownership of railroads could have been put over, or, by proper manipulation, the overburdening capitalization could have been reduced to the proper level. The policy that has been followed—good size

loans to railroads at low rate of interest to pep up the fictitious capital set-up—will prove itself to be no solution of the railroad problem.

KNUD WEFALD.

Senator SHIPSTEAD. I ask that certain petitions signed by citizens living in several of the towns served by the Minneapolis & St. Louis Railroad in South Dakota be placed in the record at this point. The petitions contain a great number of signatures. The names will not be placed in the record. The petitions alone will be printed, together with a statement of the number of signatures to each petition.

(The petitions are as follows:)

UNITED STATES SENATE,
May 8, 1936.

Hon. HENRIK SHIPSTEAD,
United States Senate.

DEAR SENATOR SHIPSTEAD: On behalf of Senator Norbeck, I enclose petitions signed by many citizens living in several of the towns served by the Minneapolis & St. Louis Railroad in South Dakota, with request that same receive the consideration of the honorable committee appointed under the Benson resolution (S. Res. 287).

Yours very truly,

JULIAN W. BLOUNT, *Secretary.*

REVILLO, S. DAK., *January 25, 1935.*

To Hon. PETER NORBECK, M. C.
To Hon. WILLIAM J. BULOW, M. C.,
Washington, D. C.:

We, the undersigned citizens and shippers of Revillo, S. Dak., and adjacent territory, now served by Minneapolis & St. Louis Railroad, do hereby express our disapproval of any action to parcel out by sale of portions of the aforesaid Minneapolis & St Louis Railroad or the abandonment of any parts thereof. We believe that the railroad under proper management and with normal times can be made to pay profits.

(Thirty-eight signatures are attached to the above petition.)

LEOLA, S. DAK., *December 20, 1934.*

To Hon. PETER NORBECK,
Senator, Washington, D. C.

HONORABLE SIR: We wish to call your attention to press reports regarding plans that are being considered by committees representing seven or eight different railroads, assisted by the author of the so-called Prince plan and railroad adviser to the Reconstruction Finance Corporation, which involves the sale by parceling out of the Minneapolis & St. Louis Railroad, financed through Reconstruction Finance Corporation loans, and also the consideration of the abandonment of a large portion of the property.

We believe the underlying principle to be the elimination of the Minneapolis & St. Louis competition. We have been reliably informed that the Minneapolis & St. Louis Railroad has earned its operating expenses during the past year and made a substantial payment on the receivers' interest charges, and believe that this railroad has made as good a showing, comparatively speaking, during this most strenuous drought period, as the majority of the lines contemplating its dissection; and it is our further understanding that plans have been perfected for the reorganization of this property, but these plans are being held in abeyance and the other plans given preference, owing to the fact that a Reconstruction Finance Corporation loan was to be used in such reorganization, and in this manner the recovery of this property is being obstructed.

The parceling out of the Minneapolis & St. Louis would make of it an unimportant line with intermittent service and without direct connections, and would cause a loss and hardship to our town and surrounding community, besides throwing hundreds of railroad men out of employment, we therefore wish to register a vigorous protest against the sale of the Minneapolis & St. Louis Railroad, except as a system unit, and/or the abandonment of any part of the railroad.

(The above petition has attached to it 12 signatures.)

(A petition identical in language to the petition last above set forth from Hoven, S. Dak., dated Jan. 25, 1935, addressed "To Hon. Peter Norbeck, Senator, Washington, D. C.", has attached to it 82 signatures.)

(Another petition identical in language to the petition last above set forth in full from Onaka, S. Dak., dated Jan. 25, 1935, addressed "To Hon. Peter Norbeck, United States Senator, Washington, D. C.", has attached to it 11 signatures.)

TESTIMONY OF JOHN W. DEVINS, RESIDENCE, MINNEAPOLIS, MINN., GENERAL MANAGER OF THE MINNEAPOLIS & ST. LOUIS RAILROAD CO.

(The witness was duly sworn by the chairman of the subcommittee.)

Senator SHIPSTEAD. State your full name and your residence, and position, and your duties.

Mr. DEVINS. My name is John W. Devins. Residence, Minneapolis, Minn. Employment, general manager of the Minneapolis & St. Louis Railway.

Senator SHIPSTEAD. Your position with the railroad is general manager?

Mr. DEVINS. Yes.

Senator SHIPSTEAD. How long have you been general manager?

Mr. DEVINS. Since April 1, 1935. And just prior to that, for 7 months, I was acting general manager.

Senator SHIPSTEAD. How long have you been with the railroad?

Mr. DEVINS. Nineteen years.

Senator SHIPSTEAD. And what have been your various duties through that period?

Mr. DEVINS. Do you mean my entire service with all the railroads?

Senator SHIPSTEAD. Yes; state the history of your service with railroads.

Mr. DEVINS. I have held 11 positions in the operating departments of five railroads. My service has extended continuously since 1908. During that time I have held service as a clerk, stenographer, accountant, conductor, yardmaster, trainmaster, assistant superintendent, terminal superintendent, division superintendent, assistant to the general manager, and as at present occupied. With the M. &. St. L. Railroad I have held the positions as hereinbefore stated from conductor on.

Senator SHIPSTEAD. You are pretty well familiar with the property throughout the system?

Mr. DEVINS. Yes, sir.

Senator SHIPSTEAD. You have been all over the road?

Mr. DEVINS. Yes, sir.

Senator SHIPSTEAD. Will you give a general description—not too much in detail—but of the railroad, with its terminals, and the general physical plant. You are familiar, as general manager, with the

condition of the equipment and the roadbed. You are familiar with the terminal properties, with so-called fixed property of buildings, and so forth?

Mr. DEVINS. Yes, sir.

Senator SHIPSTEAD. Will you give a general description of the property and of its condition today?

Mr. DEVINS. The railroad has approximately 1,524 miles of owned and maintained main track. And approximately 1,900 miles of owned and maintained all tracks. It has slightly in excess of 21,000 acres of land. Its principal shops are located at Minneapolis, Minn., and Marshalltown, Iowa.

Senator SHIPSTEAD. What is the character of that land that the railroad owns? Roadbed and terminal property?

Mr. DEVINS. Yes, sir.

Senator SHIPSTEAD. Does it own land outside of the railway right-of-way and its terminals?

Mr. DEVINS. Yes, sir.

Senator SHIPSTEAD. What is the character of that land?

Mr. DEVINS. It owns farm land. I can enlarge on that later if you wish. Its general office is located in Minneapolis, Minn.

Senator SHIPSTEAD. Is the plant in good condition?

Mr. DEVINS. Yes, sir.

Senator SHIPSTEAD. Is the equipment in good condition?

Mr. DEVINS. The equipment we use is in adequate condition and sufficient to handle the present volume of traffic or an increased volume of traffic.

Senator SHIPSTEAD. How much more traffic than you are handling now could you handle?

Mr. DEVINS. At least 15 percent.

Senator SHIPSTEAD. Fifteen percent?

Mr. DEVINS. Yes, sir. At least 15 percent.

Senator SHIPSTEAD. What is its traffic volume at the present time?

Mr. DEVINS. I do not believe I understand your question, Senator. Do you mean with respect to revenue?

Senator SHIPSTEAD. With respect to tonnage. Do you know what tonnage you hauled last year? The volume of traffic?

Mr. DEVINS. I know that it was in excess of the year 1934. It might be measured in terms of gross revenue. It might be measured in terms of gross ton-mileage. But both the revenue and the gross ton-mileage exceeded 1934. I do not have with me the exact data as to the figures.

Senator SHIPSTEAD. I will put the question in another way. You have equipment to carry 15 percent more traffic than you are carrying now?

Mr. DEVINS. Yes.

Senator SHIPSTEAD. Is it reasonable to assume that you have enough equipment to carry increased traffic sufficient to make gross revenue 15 percent higher than it was last year?

Mr. DEVINS. We estimated for the year 1936 with respect to the railroad's ability to handle traffic and its probable net income, and we have taken into consideration in doing so its present equipment, both in number and the amount of that equipment and the maintenance of that equipment, to arrive at conclusions that there will be a relatively substantial net.

Senator SHIPSTEAD. You heard Mr. Anderson's testimony yesterday, did you?

Mr. DEVINS. No; I did not.

Senator SHIPSTEAD. In the hearing yesterday the question arose as to the comparative condition of the physical property of the road now and in 1923, when it went into receivership. Mr. Anderson stated that he had no other way of comparing that except by the book value. Did you have sufficient knowledge of the physical value of the property in 1923 and down through to the present time to be able to give us your opinion as manager at the present time as to the comparative physical condition of the road now and in 1923?

Mr. DEVINS. As stated previously, I have been located at various points on the railroad, both prior to and at the commencement of the receivership, and because of close contact with and knowledge of track conditions and roadway maintenance and other factors having to do with operation I am prepared to say that almost immediately after the commencement of the receivership there began a program for improvement of roadway, and that continued for several years. There was new equipment added. Heavier rail was purchased and laid. There was a program for more frequent tie renewals, and the railroad generally with respect to conditions and practices was improved.

Prior to receivership there was, in my opinion, a deferment of maintenance, especially with respect to roadway and particularly with respect to track maintenance. The improvement continues.

Senator TRUMAN. What effect will splitting up this railroad have on traffic through the gateways to Missouri by way of the Wabash?

Mr. DEVINS. If I have a correct understanding of the Associated Railway Co.'s plan, the present short route from the Twin Cities to Kansas City will be eliminated as a through route. There will, however, I presume, remain other through routes. But I think this railroad has the short route from the Twin Cities to Kansas City by way of the Wabash from Albia, Iowa. I may be mistaken on that as to mileage, but that is my general impression.

Senator TRUMAN. You were saying that the maintenance of this railroad has been kept up during the receivership and in effect that its physical condition had been improved. Does freight and other traffic move promptly over this road?

Mr. DEVINS. I think I can best reply to your question by taking two common points where there are four or five carriers that operate between those two common points, including this carrier. Take, for instance, the town of Mason City, Iowa, which is located approximately 145 miles south of Minneapolis. The following lines operate between the Twin Cities and Mason City: Minneapolis & St. Louis Railroad; Chicago, Rock Island & Pacific; Chicago, Milwaukee, St. Paul & Pacific; Chicago Great Western; and Chicago & North Western Railway. The Minneapolis & St. Louis makes the best time of any of the five railroads, and the distance between these two points on all lines does not vary over 6 miles.

Senator TRUMAN. Then you are not in such a run-down condition as the long receivership would indicate; is that true?

Mr. DEVINS. I think the Minneapolis & St. Louis makes that distance with its freight traffic in better than an hour less time than any other line. And during the entire year of 1935 there were four daily freight trains operated between these two points without a wheel off.

Senator SHIPSTEAD. Are you talking about Kansas City over the Minneapolis & St. Louis and the Wabash from the Twin Cities?

Mr. DEVINS. Yes; I am talking about trains that handle that traffic.

Senator SHIPSTEAD. The service that you render from the Twin Cities to Kansas City, if I understand your testimony correctly, then, amounts to what would be a first-class main-line service over the two roads with the traffic arrangement that you have with the Wabash?

Mr. DEVINS. Yes, sir; it is.

Senator SHIPSTEAD. It could not be any better if it was one main line; is that correct?

Mr. DEVINS. That is correct.

Senator SHIPSTEAD. And you said something about that traffic not having a wheel off. That would be a criterion of the condition of the equipment and roadbed, would it not?

Mr. DEVINS. Yes. Adequate maintenance.

Senator SHIPSTEAD. You could not do that unless the equipment and the roadbed were in good physical condition?

Mr. DEVINS. Absolutely not.

Senator SHIPSTEAD. With reference to the physical equipment and the maintenance of the road, could you tell us if you had many accidents in the last few years, so far as derailments are concerned, and accidents or wrecks due to the undermaintained condition of the property?

Mr. DEVINS. Every carrier in the United States is required to report to the Interstate Commerce Commission currently all casualties and all train accidents. This carrier of course does so. I do not have the detail of the information that you seek, but I am sure that those reports I speak of will divulge the fact that this railroad with respect to its casualties per 1,000,000 man hours and its derailments from any cause compare favorably with any railroad in the Middle West.

Senator SHIPSTEAD. Are you familiar to some extent with the other railroads? Have you traveled over some of the other roads?

Mr. DEVINS. I have traveled over them and worked for them.

Senator SHIPSTEAD. In the last 4 years?

Mr. DEVINS. Well it is quite some time since I worked for three of the railroads that form the Associated Railways.

Senator SHIPSTEAD. But have you traveled over some of the other railroads in the Northwest in the last few years?

Mr. DEVINS. Yes, sir.

Senator SHIPSTEAD. And have you taken any cognizance of the physical condition of the properties?

Mr. DEVINS. Yes, sir.

Senator SHIPSTEAD. How would you say that the maintenance of equipment and the roadbed of the Minneapolis & St. Louis Railroad compares with the other railroads that handle approximately the same amount of traffic, the same density and volume of traffic? Could you give us an estimate on that?

Mr. DEVINS. I can give you an exact illustration. At a point about 10 miles south of Minneapolis the main line of the Milwaukee railroad crosses this railroad—the M. & St. L. The Milwaukee main line is the track extending from the Twin Cities to the Pacific coast. At this crossing the Milwaukee railroad consists of 90-pound rails rolled or manufactured in 1912 or 1915. Its ties consist of hard wood and soft wood interspersed. Its ballast is pit run gravel. If screened gravel was ever used there it is not now apparent. The line of the M. & St. L. at this place consists of 100-pound rail rolled in 1929. Its ties are all hard wood. Its ballast is cinders. And in our opinion cinder ballast is more valuable than pit-run gravel.

In my opinion the M. & St. L. main track is the stronger of the two. The description I have given of the Minneapolis & St. Louis Railroad track at this point is illustrative of its condition for a considerable distance southward. This railroad does not have 100-pound rail over its entire system, but it does have rail sufficient to accommodate the density of traffic upon its several lines.

Senator SHIPSTEAD. How much could it increase the density of traffic with the present condition of the road, in your opinion?

Mr. DEVINS. Oh, I would say 50 percent as far as track conditions are concerned.

Senator SHIPSTEAD. I am not talking about equipment. I am talking about the roadbed, the trackage.

Mr. DEVINS. I would say 50 percent easily.

Senator SHIPSTEAD. You could increase it 50 percent?

Mr. DEVINS. Yes, sir.

Senator SHIPSTEAD. From what you know of the general railroad situation during the receivership maintenance, in your opinion how does that compare with the maintenance of the M. & St. L. during that time and at the present time compare with the maintenance that has been kept up the last few years by any of the other roads in that territory?

Mr. DEVINS. Well, I am not so familiar with the other roads as to be intimately acquainted with their program. I know about the maintenance of this railroad, the Minneapolis & St. Louis Railroad, because I have walked over a considerable part of it, as distinguished from inspection from the rear of a business car or the rear of a moving train, but my knowledge of the other railroads has been obtained from moving trains, except in one or two instances where I have particularly looked over some of the property on the ground.

Senator SHIPSTEAD. I would only ask you to compare it with what other properties you happen to have knowledge of.

Mr. DEVINS. I am quite sure that I can say at least that this railroad, the M. & St. L., has kept up their maintenance in a way comparable with the other lines.

Senator SHIPSTEAD. You have heard this talk that the M. & St. L. is a broken-down railroad; that it is not in good condition physically or financially or as to equipment. Now you can testify as to equipment and as to physical plant generally. Do you want to say that you consider the condition of it as good as the average railroad is at the present time, or better?

Mr. DEVINS. I would say that the condition of the M. & St. L. Railroad is such that it is capable of handling a large increase in traffic.

Senator SHIPSTEAD. What was your position in 1923 with the railroad?

Mr. DEVINS. I was a trainmaster on the western division.

Senator SHIPSTEAD. On the western division. That is in South Dakota?

Mr. DEVINS. It extends into South Dakota and southward as far as Albert Lea, Minn.

Senator SHIPSTEAD. In that position did you have occasion at any time to travel over any other part of the system?

Mr. DEVINS. Not at that time. I did later. Not right in 1923.

Senator SHIPSTEAD. How about 1924 or 1925?

Mr. DEVINS. My work did not carry me to other points on the railroad, but I did travel over other parts of the railroad.

Senator SHIPSTEAD. You did not get to the other parts until after the great maintenance charge of 1924 and 1925, did you?

Mr. DEVINS. No, sir.

Senator SHIPSTEAD. How would you compare the physical condition of the road at that time with what it is now? Is it as good now as it was then?

Mr. DEVINS. In 1923, are you referring to as compared to now?

Senator SHIPSTEAD. Yes.

Mr. DEVINS. I think it is in much better physical condition today than it was in 1923. I think it is in much better physical condition than it was in 1927.

Senator SHIPSTEAD. It is in better physical condition now than it was in 1927, even after that period when they put $6,000,000 into maintenance?

Mr. DEVINS. Yes, sir. There has been no deferment of maintenance at any time so far as I know, and I ought to know.

Senator SHIPSTEAD. Since the receivership?

Mr. DEVINS. During the receivership.

Senator SHIPSTEAD. There has not been any such during the receivership?

Mr. DEVINS. No.

Senator SHIPSTEAD. Do you know whether there was before the receivership?

Mr. DEVINS. It was quite apparent then, especially with respect to its roadbed.

Senator SHIPSTEAD. Have you heard testimony of witnesses here who testified that maintenance was deferred for some considerable period before and up until the receivership, which made it necessary to put a lot of money into maintenance after the receiver was appointed in 1923?

Mr. DEVINS. I did not hear that testimony, but I know that to be quite true.

Senator SHIPSTEAD. Is there need for any extraordinary maintenance in the near future of the road?

Mr. DEVINS. Do you refer to roadway maintenance?

Senator SHIPSTEAD. Yes; I mean extraordinary need. Not the ordinary maintenance.

Mr. DEVINS. None except rail. I will say that the coreceivers of the railroad have and are making arrangements to acquire at this time enough heavier rails to meet the needs of the railroad for at least 3 years.

Senator SHIPSTEAD. When were you appointed manager of the road?

Mr. DEVINS. April 1, 1935.

Senator SHIPSTEAD. The testimony of the comptroller before the subcommittee on yesterday shows there had been a great increase in traffic from 1935 up until the present time. Can you give us an estimate or a statement from your knowledge of why that increase had taken place?

Mr. DEVINS. The operating receiver made considerable changes in the traffic department, and I think during 1935 and so far in 1936 a considerable portion of the increase in traffic can be credited to the activities of the operating coreceiver and the traffic department. I do not think there is any question about that. In 1936 there has been some general improvement with respect to railway tonnage, and I think the last figures show an increase in car loading to be about 7 percent, while the increase on this railroad, as I recall it, runs for the first 4 months of this year 18 percent—something like that.

Senator SHIPSTEAD. This change that was instituted by the receiver consisted of change in what, did you say? In traffic?

Mr. DEVINS. In his traffic department.

Senator SHIPSTEAD. In the traffic department.

Mr. DEVINS. The traffic department on a railroad is comparable to a sales department.

Senator SHIPSTEAD. The change consisted in effecting economies, did it?

Mr. DEVINS. No; he increased the forces and made some other changes which later developments proved to be well worth doing.

Senator SHIPSTEAD. When was the new receiver appointed?

Mr. DEVINS. On January 1, 1935.

Senator SHIPSTEAD. Have any policies been instituted to effect economies in management and operation?

Mr. DEVINS. Commencing at that time and extending to the present time, there were economies made and changes in train service, and many others that were more or less basic in character, as distinguished from those that fluctuate with the volume of traffic, so that in 1935 those economies on an annual basis approximated $600,000.

Senator SHIPSTEAD. The saving?

Mr. DEVINS. Yes, sir.

Senator SHIPSTEAD. Did that have any effect upon the service the railroad was giving the public?

Mr. DEVINS. None whatever. It has improved the service, if anything.

Senator SHIPSTEAD. It improved the service. Did it have any effect upon increasing the hazards and making for less safety in the operation of the road and train service?

Mr. DEVINS. I think the railroad's records as to casualties and derailments, and so forth, in 1935 is the best that it has been at any time during the receivership.

Senator SHIPSTEAD. Have the receivers controlling the road abandoned any of its property during the receivership?

Mr. DEVINS. They sought in the fall of 1935 to abandon approximately 125 miles of branch lines; those lines which only produced local traffic, as distinguished from the lines which may be used for bridge carrier traffic. During the hearings the operating coreceiver, Mr. L. C. Sprague, tentatively agreed with people who had offered

objections to petition the court to change the program and permit the railroad to remain at certain places where there appeared to be good reasons, and as the result the program was reduced from approximately 125 miles to, I think, 80 miles, which at this time has been authorized by the Interstate Commerce Commission.

Senator SHIPSTEAD. Are you familiar with the general program as outlined in the application that is before the Reconstruction Finance Corporation and the Interstate Commerce Commission for dismemberment of the Minneapolis & St. Louis Railroad as to its general effect?

Mr. DEVINS. Generally so.

Senator SHIPSTEAD. What would be the general effect on the railroad as a whole?

Mr. DEVINS. There would be a termination of through service on many routes, both with respect to freight service and passenger service. Of course, the proposal, if carried into effect, will have an effect upon the personnel—employment.

Senator SHIPSTEAD. It would have an effect on traffic so far as getting freight and passenger service from the territory covered by the M. & St. L. to the Kansas City district?

Mr. DEVINS. As stated previously, I think this line, at present by way of the Wabash Railroad to Kansas City, is the short line. There are other direct lines. I am not able to state with any degree of certainty just what effect it would have between those two points.

Senator SHIPSTEAD. Can you tell us what effect it will have on the men working for the railroad?

Mr. DEVINS. After listening to the testimony in the hearing held at Minneapolis, I am of the opinion that at Minneapolis proper there would be 90 persons left out of a force of 1,000.

Senator SHIPSTEAD. Ninety persons left?

Mr. DEVINS. Yes. And that on the balance of the system, which at this time employs a total of about 3,200 people, I would say that 12 percent would be the number that may be left.

Senator DIETERICH. Mr. Witness, you have reference now to the abandonment and the changes in Minnesota by reason of the partition of this road, if it is partitioned, as it is proposed to be by this corporation making application for this loan? Do you understand my question?

Mr. DEVINS. In my previous answer I referred——

Senator DIETERICH. You are taking it now that a condition will exist that this Associated Railways Co., which has made the application here, and whose hearings are pending before the Interstate Commerce Commission, and which has for its purpose the partitioning of the road among various other railroads—you are taking it on the supposition that if that should occur, that what you say as to reduction will be the reduction in the personnel of the old employees of the road?

Mr. DEVINS. I do not understand your question, Senator.

Senator DIETERICH. I tried to be careful in framing my question so it would be an understandable one. I will ask to have the question read.

(The question referred to was read by the reporter, as above recorded.)

Senator DIETERICH. I do not believe I was as good in framing my question as I thought I was. I will withdraw that question, and I will ask you another question.

You say that the result in Minneapolis will be that there will be 9 percent left in case this Associated Railways Co., which is organized for the purpose of obtaining the property of the Minneapolis & St. Louis Railroad Co., should acquire this property and partition it among the various railroads, sell parts of it to the various railroads as contemplated. What I am trying to get at is this: What condition would you say would obtain there where only 9 percent of the employees will be left? Will you tell me that?

Mr. DEVINS. I am not familiar enough with the Associated Railways Co. plan to describe——

Senator DIETERICH. Then, how can you estimate what the number of employees that will be left there employed will be in case the plan should go through if you are not familiar with it?

Mr. DEVINS. I have asserted into the record my recollection of the Associated Railways testified to.

Senator DIETERICH. Who testified in behalf of them?

Mr. DEVINS. With respect to Minneapolis the general superintendent of the Milwaukee Railroad, Mr. Christopher.

Senator DIETERICH. You have not any judgment of your own, then?

Mr. DEVINS. I could not have accurate judgment because I——

Senator DIETERICH. You are just telling us, then, what you understand the record to be of somebody else's testimony?

Mr. DEVINS. Yes, sir.

Senator DIETERICH. Is that right?

Mr. DEVINS. Yes, sir.

Senator DIETERICH. You have not any knowledge about that yourself?

Mr. DEVINS. I could not have, because I do not know what train service or what other service they will establish.

Senator DIETERICH. No. I might suggest to the chairman that that is not the proper way even to prove a record. That is worse than hearsay. He simply says, "I heard somebody else say something at some other hearing." It certainly is not proper. It would be manifestly improper for us to listen to anything like that, because we might be woefully misled by anything like that.

Senator SHIPSTEAD. Mr. Devins, who did you say it was that you heard testify to that effect?

Mr. DEVINS. The general superintendent of the Milwaukee Railroad with respect to Minneapolis; and there were several others who testified for some of the other lines.

Senator SHIPSTEAD. And they were officials of the various roads?

Mr. DEVINS. Yes, sir.

Senator SHIPSTEAD. Officials who were testifying in favor of this application and in favor of the dismemberment of the Minneapolis & St. Louis Railroad?

Mr. DEVINS. Well, I would judge they were in favor of it.

Senator SHIPSTEAD. They appeared for the petitioners?

Mr. DEVINS. Yes, sir.

Senator SHIPSTEAD. For the applicants in this case?

Mr. DEVINS. Yes, sir.

Senator SHIPSTEAD. And you thought that they knew what they were talking about and you had reason to believe that they knew what they were talking about, did you?

Mr. DEVINS. Yes, sir.

Senator DIETERICH. Mr. Chairman, I do not want to get into any controversy and I will not get into any controversy with the chairman of my committee, who I know is acting in good faith, and I am not going to interfere with him in going along this line of testimony, but it is evident that if that testimony is pertinent at all the parties who gave the testimony should be produced here so that we can find out on what it is that they based their testimony. If that cannot be done, the transcript of their testimony should be introduced. Never in my life have I heard of a witness being permitted to say what somebody else said unless what he said was in controversy in the matter of impeachment. It just is not fair to the committee to have such evidence presented before it. If the chairman insists on going on I shall withdraw any objections, and the chairman may conduct the hearing in any way he wishes.

Senator SHIPSTEAD. I do not think it is important. The Senator realizes that in hearings before a committee of the Senate we do not follow the rules which are followed in a court. I think it is not necessary that the committee in taking testimony must go so far as the Senator in his statement has indicated. We are not going to have any controversy about it or delay the hearing on that score. We can get the testimony of what these witnesses said. That testimony is contained in the transcript of the record. We can get the transcript of the record, or if the Senator desires we can call the witnesses. I do not think it is important at this moment. Everyone realizes that the witness now on the stand is testifying to what he heard others say.

Senator DIETERICH. Here is a witness who is trying to get into this record that there will be a reduction to 9 percent in employment, and he gives that testimony, not from any knowledge that he has himself or from what he knows, nor is it based on any experience of his own, but his testimony is based on what he heard somebody else say.

Mr. DEVINS. I can render an opinion on it, Senator.

Senator DIETERICH. I tried to get your opinion on it, and you said you had none, as I recollect.

Mr. DEVINS. I was trying definitely to answer your question as I understood it.

Senator BENSON. Mr. Devins, is it not a fact that in expressing your opinion a few moments ago you were basing that opinion on your knowledge of the present and past operation of the Minneapolis & St. Louis Railroad, of which you are the general manager, and upon the testimony given by the officials of the Associated Railways as to what they intended to do with the railroad after they acquired it?

Mr. DEVINS. I listened to this testimony, and I formed the conclusion that the information they gave with respect to the number of employees that might be retained was approximately correct.

Senator SHIPSTEAD. Did those witnesses give that as their estimate?

Mr. DEVINS. They gave it as their opinion.

Senator SHIPSTEAD. They gave it as their opinion, under oath?

Mr. DEVINS. Yes.

Senator DIETERICH. Let me follow that up. That was as the employment existed at the present time in Minneapolis and as it would exist when this terminal facility there would be turned over to the other railroad companies?

Mr. DEVINS. The information was based upon the service they intended to render.

Senator DIETERICH. The service that they intended to render—and when you say "they" you mean those railroads who will operate it if this reorganization should take effect. I am trying to get at upon what you are basing your testimony. You are basing your testimony now on what would happen in case the application made by the Associated Railways Co., which is organized for the purpose of acquiring this property and partitioning it among the other railroads, should be granted, and that which they are applying for should come to pass; is that right?

Mr. DEVINS. The answer that I gave was based upon the information they submitted with respect to service, and I think that is about right.

Senator DIETERICH. I am trying to get at one thing, and I am wondering if I can get myself clear to you. It is based upon a change of condition from the present time, is it not?

Mr. DEVINS. Yes.

Senator DIETERICH. Yes. And that change of condition is what would occur if what the Associated Railways Co. proposes to do with the road in case they should acquire it, should come to pass?

Mr. DEVINS. Yes.

Senator DIETERICH. That is correct, is it not?

Mr. DEVINS. Yes.

Senator DIETERICH. What is your judgment as to the reduction or the increase of employment in the rest of the State of Minnesota in case that plan should be adopted?

Mr. DEVINS. I do not understand that question.

Senator DIETERICH. In case the plan should be carried out, the plan proposed by the Associated Railways Co., what would be the effect of change of employment in the rest of Minnesota outside of St. Paul?

Mr. DEVINS. I do not have information that might show it.

Senator DIETERICH. You have no judgment or information on that?

Mr. DEVINS. I have no information with respect to the number of other employees in the State of Minnesota outside of Minneapolis.

Senator DIETERICH. If you have no information on it, then you can give no answer to that question? Is that correct?

Mr. DEVINS. Yes.

Senator DIETERICH. That is correct, is it not?

Mr. DEVINS. Yes.

Senator DIETERICH. You have no information as to the change of employment that might be affected in South Dakota?

Mr. DEVINS. No, sir.

Senator DIETERICH. You have no information on that?

Mr. DEVINS. No.

Senator DIETERICH. Have you any information as to what the effect on employment would be if this plan were adopted in the State of Iowa?

Mr. DEVINS. No, sir.

Senator DIETERICH. And the State of Illinois?

Mr. DEVINS. No.

Senator DIETERICH. They do not propose to abandon any of the stations in Illinois, do they?

Mr. DEVINS. I do not know whether they propose to abandon any of the stations there. I do not think they propose to abandon trackage.

Senator DIETERICH. Has the witness testified along that line, Mr. Chairman?

Senator SHIPSTEAD. No.

Senator DIETERICH. What do they propose to do there?

Mr. DEVINS. I just replied that I do not know whether they propose to abandon any stations or not, but they do not propose, so far as I know, to abandon any trackage.

Senator DIETERICH. No; they do not propose to abandon any trackage, and they do not propose to abandon any stations.

Mr. DEVINS. Well, I am not familiar with that.

Senator DIETERICH. You did not testify about that before I came into the hearing room, so I do not want to inject myself into that proposition. The only thing that you testified about was as to reduction of employment in St. Paul, and that reduction of employment in St. Paul would be by reason of the fact that these terminal facilities there are now duplicated by other railroads? Is that not so?

Mr. DEVINS. Yes; they are duplicated.

Senator DIETERICH. They are duplicated by other railroads, and by some of the railroads that intend to acquire these facilities? That is correct, is it not?

Mr. DEVINS. Some of the other railroad companies have no facilities, of course, in Minneapolis and St. Paul.

Senator DIETERICH. They can make application before the Interstate Commerce Commission now and have an abandonment of duplicated facilities there, can they not? Or do you understand that proposition? As the general manager of the road you do not have much to do about that, do you?

Mr. DEVINS. I understand that they can make the application; yes.

Senator DIETERICH. What does the general manager of a railroad do?

Mr. DEVINS. Oh, a lot of things. It would take a couple of days to tell it.

Senator SHIPSTEAD. Mr. Devins, did you hear Mr. Anderson's testimony yesterday?

Mr. DEVINS. No, sir.

Senator SHIPSTEAD. He covered the period of increase in earnings since January 1, 1935. You have testified today that the change in the traffic—what did you call it—the traffic department, had resulted in economies and savings to the road of $600,000 during the period of 1935 or up until the present time?

Mr. DEVINS. No; that is not true. During 1935 there were economies created that on an annual basis will approximate $600,000, but they were not all made on January 1, so that they may be all credited to that year.

Senator SHIPSTEAD. I misunderstood you. On the basis of the increase in traffic from January 1, 1935, up until the present time Mr. Anderson estimated that the gross revenues for this year, 1936, would be $8,820,000. Are you familiar with the constant increase in gross revenues, and can you tell us whether or not in your opinion that amount of revenue can be received this year?

Mr. DEVINS. I assisted the general auditor in making up a projected income account for 1936, and I think that the account I have reference to is approximately correct as I see it.

Senator SHIPSTEAD. And based on the operating expenses during the period from January 1, 1935, up until the present time Mr. Anderson estimated that the operating revenues would be $7,138,000. Do you think it would be reasonable to expect that?

Mr. DEVINS. I did not get that. Operating revenue?

Senator SHIPSTEAD. Operating expense.

Mr. DEVINS. I think that is approximately correct on that volume of traffic. That is, on the volume of traffic that was estimated.

Senator SHIPSTEAD. If that is borne out it would leave a fund of $1,682,000 to pay for fixed charges, taxes, and so forth.

Senator DIETERICH. Pardon another interruption. I am interested in the chairman's line of inquiry, and I just can not keep these debts out of my mind. Are we going to advise the Federal court what they shall do? Does this committee have any function to do that?

Senator SHIPSTEAD. I have no desire to and I am not going to advise the Federal court.

Senator DIETERICH. This is all in the hands of the Federal court now, who will put this property up for sale, and the highest bidder who can furnish the money will buy the property, and the court will approve that sale.

Senator SHIPSTEAD. How does the Senator know it will?

Senator DIETERICH. Well, I say, if it is put up for sale, and the sale regularly had, the court without question will not ask the Senate committee whether or not it should approve the sale.

Senator SHIPSTEAD. I do not think it will.

Senator DIETERICH. No. And it is altogether a matter which is in the hands of the court, and I do not understand what the line of inquiry is or what it is leading to. I do not know where this line of inquiry will develop anything that will be useful to any agency of the Government that now has this matter in hand, and I have in mind the Interstate Commerce Commission, I have in mind the Reconstruction Finance Corporation, and I have in mind the Federal court which is operating this railroad through a receiver. I am just at a loss to know where we can be of any assistance to them. It may be that I am dense about it, but I just cannot see where we will be of assistance to them, because the court will dispose of this property. The court will determine the solvency of the company. The court will dispose of the property for the protection of the creditors. Probably in the disposition of the property it will see that justice is done to every one who happens to have an interest in it. If any agency wants to borrow from the Reconstruction Finance Cor-

poration they will have to make their application to those agencies of the Government that control the lending of money, and whether the applicant be the Associated Railways Co. or whether the applicant be an individual, those Government agencies will pass upon the applicant. I just do not understand wherein the questions which are being propounded to the witness and the records that are being made here are going to be of assistance. If I do not understand that it will not be the first time that I have misunderstood anything.

Senator SHIPSTEAD. Is the Senator through?

Senator DIETERICH. Yes; I am through.

Senator SHIPSTEAD. Mr. Devins, you are optimistic as to the prospect of the road to earn all its fixed charges, outside of its funded debt—I mean charges of the receivership, and to maintain the property, and to pay taxes for the year 1936?

Mr. DEVINS. I feel that the railroad will earn a substantial net.

Senator DIETERICH. What was the last?

(The answer was read by the reporter, as above recorded.)

Senator SHIPSTEAD. The railroad had, like all other railroads, a very low gross and operating revenue during the depression?

Mr. DEVINS. Yes, sir.

Senator SHIPSTEAD. Generally speaking, all railroads, including the Minneapolis & St. Louis Railroad, are now on the rise so far as gross revenues are concerned?

Mr. DEVINS. I think that is generally true.

Senator SHIPSTEAD. At one time the Minneapolis & St. Louis Railroad had as high as $16,000,000 gross revenue, did it?

Mr. DEVINS. I think that is true.

Senator SHIPSTEAD. The statement I have before me does not show that. I will take that back. Over $15,000,000.

Mr. DEVINS. I think I can recollect that just prior to the receivership it ran into figures approximating that amount.

Senator SHIPSTEAD. Before the receivership?

Mr. DEVINS. Yes.

Senator SHIPSTEAD. I see the highest figure after receivership was $15,000,000. If the railroad could get a gross revenue of $10,000,000 what would be your estimate as to what would be left over after all fixed charges are paid, except interest on the funded debt—net operating revenue and the net revenue after taxes are paid, and the interest on the fixed debt? Could you give us an estimate of that, based upon your experience and knowledge of running a railroad?

Mr. DEVINS. Using my knowledge of the railroad as a basis, and taking into consideration reoccurring expenses, as distinguished from extraordinary expenses, like floods or water conditions, and giving consideration to the need for a full maintenance program as it is today, I would say that it would produce a net of in excess of a million dollars.

Senator SHIPSTEAD. In excess of a million dollars?

Mr. DEVINS. On an annual basis.

Senator SHIPSTEAD. On an annual basis.

Senator DIETERICH. That is over and above its actual operating expenses, is it?

Mr. DEVINS. I refer to net income.

Senator DIETERICH. What I wanted to get at, Mr. Witness, is this: What have you got in mind when you are talking about net income?

Are you taking into consideration the payment of interest on any of the indebtednesses?

Mr. DEVINS. I take into consideration equipment trust notes and receiver's obligations.

Senator DIETERICH. That is material you buy on time—on the payment plan?

Mr. DEVINS. Yes.

Senator DIETERICH. Yes. I am asking you if you are taking into consideration the payment of any interest on the debts incurred through the capital structure?

Mr. DEVINS. I am talking about the receivership operations now.

Senator DIETERICH. I know; but I am asking you now, if you want to answer me, as to what you consider net income.

Mr. DEVINS. I can explain it to you in detail, if you want it.

Senator DIETERICH. Well, if you would answer the question I ask you, whether or not you took into consideration the payment of any interest upon the outstanding bonded indebtedness of the road, why I think possibly we would save that explanation.

Mr. DEVINS. I will answer that question, "no." It is available for fixed charges.

Senator DIETERICH. That is based on the prospect of an operating gross revenue of $10,000,000?

Mr. DEVINS. Yes, sir.

Senator DIETERICH. Do you consider, then, that you could pay all of the operating expenses for $9,000,000, in the earning of that $10,000,000?

Mr. DEVINS. Yes. Grouping everything in as operating expenses, yes. I think it will be perhaps a little more than $1,000,000.

Senator SHIPSTEAD. One million dollars would be available, then, to pay on whatever was the fixed debt or bonded indebtedness?

Mr. DEVINS. Yes.

Snator SHIPSTEAD. After taxes and interest on the receiver's borrowings have been paid; is that what you mean?

Mr. DEVINS. Yes.

Senator SHIPSTEAD. You would pay interest on whatever the receivership certificates were which were out; whatever equipment trust bonds were out you would pay interest on, and the taxes, and pay the employees?

Mr. DEVINS. Yes.

Senator SHIPSTEAD. You would pay all the running expenses of the railroad and have $1,000,000 over to pay the interest on the fixed charges?

Mr. DEVINS. Yes; on that amount of gross revenue.

Senator SHIPSTEAD. On $10,000,000 of gross revenue?

Mr. DEVINS. Yes.

Senator SHIPSTEAD. Under the present management?

Mr. DEVINS. Yes, sir. I believe that is possible and probable.

Senator DIETERICH. How long have you been the general manager of the road?

Mr. DEVINS. Since September 1934.

Senator DIETERICH. What capacity did you serve in prior to that?

Mr. DEVINS. Division superintendent, assistant to the general manager, terminal superintendent, in various capacities in the operating department, such as conductor, trainmaster, yardmaster, clerk.

Senator SHIPSTEAD. From your knowledge and familiarity with the road over a period of—of how many years did you say?

Mr. DEVINS. Nineteen years.

Senator SHIPSTEAD. Is it your opinion that with a gross revenue of $8,500,000 to $9,000,000, the road can be continued to operate as a system and render service to these communities which will not have service if the road is abandoned?

Mr. DEVINS. I certainly do.

Senator SHIPSTEAD. And to keep these men employed. Do you think from what you know of the road and the present management, that the road could continue to be operated?

Mr. DEVINS. I certainly do.

Senator SHIPSTEAD. And pay what are now called receiver's obligations and pay all running expenses of the road?

Mr. DEVINS. Yes, sir.

Senator SHIPSTEAD. And anything of a net income above that could be applied to payment on bonded indebtedness—that is, the funded debt or the fixed charges. And, in your estimation, if the operating revenues could reach $10,000,000, there would be a million dollars to apply on that?

Mr. DEVINS. Yes, sir; at least.

Senator SHIPSTEAD. That would be 5 percent on a capitalization of $20,000,000, would it not?

Mr. DEVINS. I would have to figure it out, but I think that is correct as I see it now. I am not that much of an accountant.

Senator SHIPSTEAD. Now let me ask you as to the ownership of the equipment and the condition of the equipment as compared with the time when the railroad went into the hands of the receiver. What would you say generally as to equipment ownership now as compared with the time when the railroad went into the hands of the receiver?

Mr. DEVINS. Well, there has been a considerable reduction in the number of units owned and operated. In my previous testimony with respect to earnings that might be produced I have taken into consideration its present owned and operated equipment. The railroad could certainly improve its position and reduce its expenses if it had more freight car equipment. But it has enough equipment today and can obtain enough from other carriers adequately to serve the public. In fact, it has sufficient equipment to take care of its local traffic today.

Senator SHIPSTEAD. I believe you testified that with the present equipment you could carry a load of traffic 15 percent heavier? Fifteen percent; is that it?

Mr. DEVINS. Yes.

Senator SHIPSTEAD. You could do that with the present equipment?

Mr. DEVINS. Yes; with the present equipment.

Senator SHIPSTEAD. And so far as the roadbed is concerned, it could carry 50 percent more traffic?

Mr. DEVINS. At least.

Senator TRUMAN. Getting back to the employee situation. Of course the reason for this hearing, as I understand it, is on account of the proposed dismemberment of the railroad.

Senator SHIPSTEAD. Yes.

Senator TRUMAN. If the proposed dismemberment were to take place would the other railroads absorb all the employees of the Minneapolis & St. Louis Railroad?

Mr. DEVINS. Not in my opinion they would not.

Senator TRUMAN. In your opinion how many of the employees would they absorb?

Mr. DEVINS. They might not absorb any. In my opinion it will be necessary for the Associated Railways or its component parts to negotiate with the organizations that have the contracts covering the employment on this railroad and the other railroads, and bearing in mind that it is the same organization that holds the contracts on both railroads.

Senator TRUMAN. Do you know whether the proposed organization, the Associated Railways, expect to take over the labor contracts of this railroad?

Mr. DEVINS. I do not.

Senator BENSON. You heard Mr. Hand, the president of the Associated Railways Co., testify in Minneapolis, did you?

Mr. DEVINS. I heard some of his testimony.

Senator BENSON. Did you hear other officials of the Associated Railways testify there?

Mr. DEVINS. Yes, sir.

Senator BENSON. Did they testify as to whether or not they were going to abandon the Minneapolis general offices of the Minneapolis & St. Louis Railroad?

Mr. DEVINS. They did.

Senator BENSON. How many employees have you got in the general offices in Minneapolis?

Mr. DEVINS. I think approximately 300.

Senator BENSON. Well, then, they did testify there that they would abandon those 300?

Mr. DEVINS. They testified that out of 1,000 employees they would probably take over 90. That is my recollection.

Senator BENSON. They also testified that they would practically abandon the shops that you have in Minneapolis, using them merely to repair switch engines, or something of that sort, did they not?

Mr. DEVINS. Yes.

Senator BENSON. Did you testify here as to the increase in volume of business through 1936 over a similar period in 1935?

Mr. DEVINS. I have; yes.

Senator BENSON. What percentage would you estimate that to be? Did you say that in your testimony? Did you give it in percentage?

Mr. DEVINS. I think for the first 4 months of this year the general increase in the Midwest is about 7 percent. The increase to this carrier in the same period over the same period last year I think approximates 21 percent.

Senator SHIPSTEAD. From what you know of the railroad property, as a going concern, taking into account its physical condition, its equipment, and the territory it serves, and bearing in mind the difficulty of the road through its heavy overcapitalized structure, and the experience you have had with it under the receivership, and bearing in mind that we have had 4 or 5 years of crop failure, have you any idea upon which you can base what you consider the value of the

road today as a going concern, as a business proposition? Not for the purpose of rate making, or as to book value, but as a going business concern?

Mr. DEVINS. We have made some calculations on what might be determined as disposal value.

Senator SHIPSTEAD. What do you mean by disposal value?

Mr. DEVINS. If the railroad is disposed of in whole or in part; whether it is sold in parts or whether it is put on the block and sold at one time.

Senator SHIPSTEAD. Sold as a whole, at one time, or dismembered, as it would be under this application?

Mr. DEVINS. Any way you want to figure it.

Senator SHIPSTEAD. You have made some calculation as to what it is worth for either one of those purposes?

Mr. DEVINS. Our people have, and I am generally familiar with them.

Senator SHIPSTEAD. I should very much like to have your opinion as to the value of the road under either one of those circumstances.

Mr. DEVINS. It is, in our opinion, worth approximately $17,000,000.

Senator SHIPSTEAD. $17,000,000?

Mr. DEVINS. Yes.

Senator SHIPSTEAD. On what do you base that?

Mr. DEVINS. The value of its real estate, meaning lands. This carrier owns farm lands and gravel pits which might be disposed of, if needed or if desired, to several States in which it operates. It owns valuable terminal properties. It owns property in the Lake Minnetonka district which is adjacent to Minneapolis; property in acreage that is not used for railroad purposes. They also considered the present inventory of materials and supplies, the value of its track fastenings and ties. The value of its bridges. The value of its equipment.

Senator DIETERICH. Mr. Witness, do you mean in the matter of junking the road?

Mr. DEVINS. Sir?

Senator DIETERICH. In the matter of junking the road, tearing up the track, and selling the iron?

Mr. DEVINS. Just as the track and ties; yes.

Senator DIETERICH. The road could not operate, and the property would not be valuable unless those terminal facilities were retained, would it?

Mr. DEVINS. Why, certainly.

Senator DIETERICH. It would be?

Mr. DEVINS. Yes.

Senator DIETERICH. They could dispose of terminal facilities and not impair the usefulness of the road?

Mr. DEVINS. I would say, Senator, that as I recollect it——

Senator DIETERICH. Where is there a terminal now that this road could dispose of without affecting it or without crippling it?

Mr. DEVINS. Without affecting it?

Senator DIETERICH. Yes.

Mr. DEVINS. I do not know of any place.

Senator DIETERICH. You do not know of any?

Mr. DEVINS. No.

Senator DIETERICH. Your idea of fixing the value of this road is fixing the value of its physical property, its rights-of-way, and such as that, as a railroad to be operated as a railroad, is it not? That is what you base your $17,000,000 valuation on, is it not?

Mr. DEVINS. Oh, no; I based it on the disposal value of this railroad.

Senator DIETERICH. That is what I wanted to get at. If you were going to dispose of this road piecemeal, as you say, what is the terminal that you could dispose of?

Mr. DEVINS. And cease to operate?

Senator DIETERICH. Yes.

Mr. DEVINS. Minneapolis.

Senator DIETERICH. Minneapolis?

Mr. DEVINS. Yes.

Senator DIETERICH. When you have disposed of that your railroad would have to cease to operate, would it not?

Mr. DEVINS. Yes.

Senator DIETERICH. Yes. And then you would be a dead railroad. Now, after you became a dead railroad, where could you sell any of the rest of your property?

Mr. DEVINS. All over its present line.

Senator DIETERICH. And you would have to take whatever those who would offer to buy gave you for it, would you not?

Mr. DEVINS. I am not so sure about that.

Senator DIETERICH. You are not so sure about that? You never heard of anybody paying any more for anything than they had to pay, did you?

Mr. DEVINS. Well, that is a large question. They pay what they want to.

Senator DIETERICH. Who will buy any of the lines of the railroad then out of Minneapolis? Where do you think you will find a purchaser for the lines of the railroad outside of Minneapolis after you have ceased to operate as a railroad?

Mr. DEVINS. We might sell it for continued operation, or it might be sold and the railroad torn up.

Senator DIETERICH. Is not every line that you run out of there paralleled by other lines? But that is your idea now, that you could take that and realize $17,000,000 by abandoning the railroad and selling it piecemeal, selling the terminal facilities here and selling the roadbed here and there? Your idea is that by that method of salvaging this railroad you could derive or realize $17,000,000?

Mr. DEVINS. I think so.

Senator DIETERICH. That is your judgment?

Mr. DEVINS. Yes.

Senator DIETERICH. That is all.

Senator SHIPSTEAD. Mr. Devins, the road went into receivership in 1923, and for 11 years the total interest paid on fixed debt over the 11 years was $22,250,000. That would be more than $2,000,000 a year paid on fixed debts, $46,000,000 of bonds outstanding. Now, is it your opinion that that heavy fixed debt charge on the road which was bonded for $46,000,000, which you say in your opinion is worth $17,000,000, drained the treasury to such an extent that the management at that time had to undermaintain the road, and they were not able to pay the interest or principal on the equipment bonds

they had outstanding, to such an extent that the receiver had to pay more than $3,000,000 on those equipment bonds, and in 1924 had to put $6,000,000 into maintenance? If there had been a reasonable capitalization and a reasonable fixed interest charge, say, to the extent of a million dollars a year instead of $2,000,000 a year, that extra million dollars could have been used to keep up the maintenance of the property and pay those bonds, and the road would never have gone into receivership. Is that a reasonable conclusion?

Mr. DEVINS. It is, in my opinion.

Senator DIETERICH. Now, what is the reasonable conclusion that you have in mind?

Mr. DEVINS. That there was an overburden of fixed charges prior to the receivership.

Senator DIETERICH. An overburden of what?

Mr. DEVINS. Of interest payments.

Senator DIETERICH. What are the elements that the Senator asked you about that you took into consideration when you made the answer?

Mr. DEVINS. I took into consideration the run-down condition of the railroad and the amount of interest charges it was paying prior to receivership.

Senator DIETERICH. Has the receivership been rather a heavy charge on the railroad?

Mr. DEVINS. Has the receiver been a rather heavy charge on it?

Senator DIETERICH. Yes.

Mr. DEVINS. There have been some payments due to receivership costs. I think they are around $800,000.

Senator DIETERICH. What is your idea of what should be done with this railroad?

Mr. DEVINS. Sir?

Senator DIETERICH. What is it in your mind that should be done with this railroad, taking into consideration now the financial condition that it is in; that there are outstanding obligations of some $75,000,000 with accrued interest? You say you could salvage it for $17,000,000. What is your idea now that should be done with this railroad?

Mr. DEVINS. Continued as a unit.

Senator DIETERICH. And not pay interest on the bonded indebtedness?

Mr. DEVINS. I do not believe I am qualified to say that, Senator.

Senator DIETERICH. You realize that those men who own the obligations have got some interest in the road?

Mr. DEVINS. Mine is the viewpoint of the operator as distinguished from the owner.

Senator DIETERICH. I understand. But you think it should be operated at any cost?

Mr. DEVINS. No; I think it can be operated for the principal reason——

Senator DIETERICH. I am asking you what reorganization would you make there? What new set-up would you create whereby you think this road could be operated and meet its operating expenses and take care of those whose money went into the ownership of the road? What is the set-up you have in mind?

Mr. DEVINS. I do not have any particular set-up in mind, but I can make one here.

Senator DIETERICH. Do you not think you should have a set-up in mind? You do not think it would be proper to turn it over to these Associated Railways, if I understand you right, for the purposes for which they want it?

Mr. DEVINS. No; I do not.

Senator DIETERICH. You do not. Well, then, I am asking you candidly and frankly—you are the general manager of this railroad—then what is your scheme that would be a sound proposition, both from a practical operating standpoint and from an investment standpoint, because money necessarily must go into it. What is your scheme as to the reorganization of this road?

Mr. DEVINS. What is my scheme?

Senator DIETERICH. Well, what is your plan, or whatever you want to call it? You understand what I mean, do you not?

Mr. DEVINS. I can furnish my opinion.

Senator DIETERICH. What is your opinion, then?

Mr. DEVINS. That the railroad might be capitalized at whatever amount may be determined upon, and based upon its ability to produce net revenue, which I have heretofore mentioned, but I am not the one, I do not believe, even to suggest as to the rate of return which would influence the amount of capitalization.

Senator DIETERICH. Oh, but you are the general manager of this railroad. You manage this railroad in a general way. You have the full authority. You ought to know its physical property. You ought to know its prospective freights and traffic in every line that it deals in. You ought to know its financial condition and its financial structure. You are the general manager. Upon you depends not only the successful operation of the railroad by serving the communities but also the returns of the railroad to meet its outstanding obligations. Is that not right?

Mr. DEVINS. No.

Mr. D. C. EDWARDS. Mr. Chairman, if I may be permitted to make a statement, I should like to do so at this time.

Senator SHIPSTEAD. State your name.

Mr. EDWARDS. My name is D. C. Edwards. I am the general solicitor for the railroad receivers. I am here to advise with these operating men who have been asked by this committee to be present, and who are here under rather definite instructions from the court under whose jurisdiction we operate. It has been suggested to them that they refrain from expressing any opinion upon matters which are not their particular function.

I should like to say for your committee that it is not considered by the court as any part of the function of the operating general manager or the operating coreceiver to suggest to this committee or to the court plans or methods of corporate reorganization to take the property out of receivership, and I think it would be rather presumptuous for us, in the state of the receivership record, to suggest to the committee that they—the operating coreceiver and general manager—have formulated any corporate reorganization plan, because the court is very definite in his notions that that is not their function.

Senator DIETERICH. I fully agree with the gentleman who has just addressed the committee. I think it is an improper line of inquiry,

and I also think that the entire line of inquiry of this witness was improper, other than what he personally knows about the railroad physically. To put him on as an expert and to put hypothetical questions to him to show that the road can operate successfully even under receivership or under reorganization is not, in my opinion, a function of this committee at all. That is all in the hands of the court, and all will be determined by the court.

Mr. EDWARD. If the Senator please, I am not suggesting at all about, or making any observation whatever with reference to, the function of this committee. That was not my thought. Nor what it may inquire into. That is for it to determine. What I am endeavoring to make plain and clear is that the operating men of this railroad do not wish to express any opinions about reorganization of the railroad.

If I may be permitted, I might disagree with the Senator as to the propriety of the operating manager discussing the ability of the railroad as operated to produce net income. That is essentially something that the operating men ought to know. As to how to apply that net income, that is not their job.

Senator DIETERICH. As I understand, you are one of the receivers of the road?

Mr. EDWARDS. Not at all.

Senator DIETERICH. You are the solicitor for the receiver?

Mr. EDWARDS. Right.

Senator SHIPSTEAD. Mr. Devins, I should like to ask you a question.

Senator DIETERICH. One moment, Senator. Let me get over my shock. Let me ask this gentleman another question. By the way, are you going to take the witness stand?

Mr. EDWARDS. I will be very happy to do so if you wish.

Senator DIETERICH. Well, you rather injected yourself in here as a witness, and naturally what you have said leads up to a long line of investigation and inquiry.

Mr. EDWARDS. I first conferred with the chairman as to whether I might with propriety make the suggestion I did to the committee.

Senator DIETERICH. That is all right. You do not think then that you should suggest any operating plan, but you think it would be perfectly proper for you to come here and oppose the matter of the plan in the petition which is now pending before the Interstate Commerce Commission?

Mr. EDWARDS. Not at all. We are not here to oppose or favor any plan.

Senator DIETERICH. You think it is all right for you to come and give testimony on that to show that the receivers should continue the operation of this road? Is that true?

Mr. EDWARDS. Not at all, Senator. We can give you the facts and you can form your own conclusions.

Senator DIETERICH. I want to get your idea so that our minds can come together on this matter.

Mr. EDWARDS. No; I do not think so at all, Senator. We may express opinions, if qualified to do so, on a particular matter.

Senator SHIPSTEAD. We will have him on the stand. You are an agent of the court?

Mr. EDWARDS. Exactly. As a lawyer, an officer of the court.

Senator SHIPSTEAD. And you have certain instructions from the court?

Mr. EDWARDS. Yes, sir.

Senator SHIPSTEAD. And you rose here simply to give notice that you had certain instructions from the court?

Mr. EDWARDS. Exactly.

Senator SHIPSTEAD. And to protect the men who had instructions from the court, so that the instructions of the court should not be disobeyed by the answers that were given to questions which were asked by the committee?

Mr. EDWARDS. Exactly.

Senator SHIPSTEAD. That is the purpose for which you rose?

Mr. EDWARDS. Yes.

Senator DIETERICH. In order that we may be clear let me ask you this question. I consider the instructions by the court to be proper instructions.

Senator SHIPSTEAD. I do, too.

Senator DIETERICH. They are proper instructions. That is why the inquiry kind of shocked me a little bit, because it looked to me like we were going ahead and running a sort of master in chancery division of the court and trying to give the court advice on the matter. This matter is all before your court, is it not?

Mr. EDWARDS. Yes.

Senator DIETERICH. These applications are all before the court?

Mr. EDWARDS. Which applications, Senator?

Senator DIETERICH. I mean the applications for sale, and such as that.

Mr. EDWARDS. There is no application for sale.

Senator DIETERICH. Well, it has been advertised for sale several times, has it not?

Mr. EDWARDS. Yes.

Senator DIETERICH. Bidders have been asked by the court to buy this road?

Mr. EDWARDS. I think it has been offered, though the matter of actual sale has been suspended while this plan has been pending.

Senator DIETERICH. The court is interested in protecting the investment in this property for those whose money is invested in it, is it not? One certainly may assume that?

Mr. EDWARDS. That is true.

Senator DIETERICH. Yes. And the way it can best be protected is the way the court feels it should be done; either by sale and disposition of the property, closing up the matter, and closing out those whose liens are not paid, or by operating successfully and meeting the obligations. That is correct, is it not?

Mr. EDWARDS. Well, that is quite a large question. Some of it is correct and some of it is not.

Senator DIETERICH. What part of it is not correct?

Senator SHIPSTEAD. Can we not call this gentleman as a regular witness and put him under oath?

Senator DIETERICH. Yes.

Mr. EDWARDS. I will be glad to.

Senator SHIPSTEAD. He is subpenaed to come here.

Senator DIETERICH. With that understanding I will not ask the general manager. I will withdraw my question to the general man-

ager then, and he need not submit to me the plan of reorganization he has in his mind.

Senator SHIPSTEAD. Did you say you had a plan of reorganization in your mind?

Mr. DEVINS. I have not.

Senator DIETERICH. When I have withdrawn the question, I do not know why the chairman should absolutely flagrantly proceed to ask the witness the question which the man whom we have just interrogated said was improper for the previous witness to answer.

Senator SHIPSTEAD. Well, you testified here as a mind reader, and I think you ought to qualify as such. I thought you put words in the witness' mouth that were unfair to the witness.

Senator DIETERICH. No.

Senator SHIPSTEAD. And I wanted to protect him from that, because he is an agent of the court, and I am as anxious to protect him as an agent of the court as he is to be protected.

Senator DIETERICH. Do you not have confidence in the court?

Senator SHIPSTEAD. Yes; I have.

Senator DIETERICH. Then why not let the court proceed and deal with this? Why interfere with it?

Senator SHIPSTEAD. However, there are other things involved.

Senator DIETERICH. I thought you were afraid that the court might approve something that was absolutely improper, and I thought the entire purpose of the meeting of this committee was to sit here and prevent the court from making some kind of a transfer that was improper or from making some disposition of the road that was improper, and to advise the court that it was improper, and to show it that it was improper. If I had the abiding confidence in the court that the Senator claims he has I would not do that. I would just bank my life on the proposition that the court would do the proper thing.

Senator SHIPSTEAD. Well, the Senator thought that I wanted to advise the court. The Senator has another think coming.

Senator BENSON. I should like to ask the witness a question, Mr. Chairman. Mr. Devins, when you testified some time ago regarding the value of the railroad——

Senator DIETERICH. Let me ask another question of the gentleman who just addressed the committee. Will you pardon me, Senator, for interrupting you and asking a question of him?

Senator BENSON. Surely.

Senator DIETERICH. I am asking this question of the solicitor for the receiver. Do you think it is a proper question and a fair question to ask this witness to testify as to values; to ask him to give his opinion as to values of railroad property that is under the disposal of the court and that might embarrass the court in its future decisions?

Mr. EDWARDS. Why, not at all, Senator. I think that is an entirely proper field for this witness to testify about, if he has an opinion about it, for the very reason that that is a subject which the court will want a good deal of advice about and which he likely will not have any opinion about without some evidence.

Senator DIETERICH. Do you think the court will take the transcript of this proceeding and treat it as authentic testimony?

Mr. EDWARDS. Not at all.

Senator DIETERICH. Do you not think that the court will require witnesses to be produced who are experts on that subject and who will appear and testify before the court as to what the value is?

Mr. EDWARDS. I misunderstood you, Senator. I thought you asked if it was proper for this witness to testify as to values.

Senator DIETERICH. I mean in this proceeding.

Mr. EDWARDS. That is for you to determine. If you should regard it as pertinent, that is for you to determine.

Senator DIETERICH. You are a lawyer, too, are you not?

Mr. EDWARDS. Yes.

Senator DIETERICH. I thought you were. I had my suspicion that you were.

Mr. EDWARDS. I hope what I said made you suspect it.

Senator DIETERICH. Yes. I had very strong suspicions that you were a lawyer.

Senator SHIPSTEAD. You admitted it when you rose, did you not?

Senator DIETERICH. You are employed by the receiver?

Mr. EDWARDS. Yes, sir.

Senator DIETERICH. And the longer the receiver stays in charge of this road the longer your employment will last, will it not?

Senator SHIPSTEAD. Now, Senator——

Senator DIETERICH. I will withdraw that question. Excuse me.

Senator SHIPSTEAD. We should not be imputing selfish motives to one who appears as a witness.

Senator DIETERICH. You need not reprimand me, Mr. Chairman. I have withdrawn the question.

Senator BENSON. Sometime ago you testified regarding the value of the railroad. You stated it was probably worth $17,500,000 for operating purposes, or for any purpose to which you might put the road, or for almost any purpose. In arriving at that figure you placed some value upon the real estate of the railroad, did you?

Mr. DEVINS. Bear in mind that I personally did not calculate these figures. They were assembled by people who are more or less qualified to do those things. I am testifying as to my recollection, in a general way, of the make-up.

Senator DIETERICH. Then I was mistaken. That $17,000,000 value was not your own opinion; it was gathered from what you had heard others express themselves about at various times?

Mr. DEVINS. It was gathered under my direction by our engineering department, to be specific.

Senator DIETERICH. Have you a record of that?

Mr. DEVINS. Yes.

Senator DIETERICH. Is the record in book form or in correspondence form?

Mr. DEVINS. It is in neither, as far as I am concerned. It is in the record form in Minneapolis.

Senator DIETERICH. It goes to the value of various properties to be disposed of piecemeal?

Mr. DEVINS. I don't know just what the record shows in detail.

Senator DIETERICH. That is all I have to ask.

Senator BENSON. In arriving at that figure of $17,500,000, the real estate did have a certain bearing on that as having a certain value?

Mr. DEVINS. Yes.

Senator BENSON. The Minneapolis Terminal property has a considerable value, has it not?

Mr. DEVINS. I would say so.

Senator BENSON. Do you recall what Interstate Commerce Commission value was placed upon that property in 1917 or 1910, or whenever it made its valuation?

Mr. DEVINS. I think it was about 2½ million dollars.

Senator BENSON. The line of track from Minneapolis to Chaska is quite considerable track for railway purposes, is it not?

Mr. DEVINS. Yes.

Senator BENSON. That would be valuable to almost any railroad operating out of Minneapolis toward the West, would it not? It would be valuable, say, to the Milwaukee Railroad?

Mr. DEVINS. I would say so.

Senator BENSON. In fact, it is more valuable than their own track from Minneapolis out to Chaska?

Mr. DEVINS. I think it is. I think it is a better railroad, so far as its track structure is concerned.

Senator BENSON. The equipment of your railroad at its present depreciated value is valued at what?

Mr. DEVINS. I think around 4½ million.

Senator BENSON. Do all these various values go to make up the $17,500,000 that you spoke of?

Mr. DEVINS. That is true.

Senator BENSON. If this railroad is to be sold and a loan made through the R. F. C. on it, you would much prefer to have it sold for $17,500,000 than you would for, say, $7,500,000, would you not?

Mr. DEVINS. I certainly would, if I were the owner.

Senator BENSON. Well, you would anyway, as general manager? You would rather see it sold for a fair, reasonable price than you would for a very low price?

Mr. DEVINS. Yes.

Senator SHIPSTEAD. You have no financial interest in the road, have you?

Mr. DEVINS. None whatever.

Senator SHIPSTEAD. Bonds or anything else?

Mr. DEVINS. No, sir.

Senator SHIPSTEAD. You are here under subpena to give us such information of which you have knowledge?

Mr. DEVINS. Yes, sir.

Senator SHIPSTEAD. In the information you have given, you have borne in mind the instructions you have had from the court, and you have followed those instructions. You have not been asked to testify to anything that was not proper to be asked of you in connection with your own knowledge and opinion and as you have been advised by Mr. Edwards, the attorney?

Mr. DEVINS. That is true.

Senator SHIPSTEAD. That is all for the present. We will stand adjourned. It is 12 o'clock, and we shall have to go to the Senate.

Mr. DEVINS. May I consider myself permanently excused?

Senator SHIPSTEAD. I do not know. If it should be necessary——

Senator DIETERICH (interposing). I had some questions that I wanted to ask.

Senator SHIPSTEAD. Oh, I beg your pardon, Senator; go right ahead.

Senator DIETERICH. I was going to ask about that line from Minneapolis to Chaska.

Mr. DEVINS. I will be glad to answer your question.

Senator DIETERICH. What is the length of the line?

Mr. DEVINS. From Minneapolis to Chaska is about 22 miles.

Senator DIETERICH. Are there any other railroads running to Chaska?

Mr. DEVINS. The Milwaukee itself runs to Chaska, through there. It has a branch line connecting two of its main lines.

Senator DIETERICH. Is there any other railroad running to Chaska besides your railroad?

Mr. DEVINS. The Milwaukee Railroad. There is a large sugar refinery located there.

Senator DIETERICH. Only two railroads go to Chaska? How big a place is Chaska?

Mr. DEVINS. Oh, I would say a thousand, twelve hundred people in population.

Senator DIETERICH. The only industry is a sugar refinery?

Mr. DEVINS. And brick and tile.

Senator SHIPSTEAD. It is a good town, is it not?

Mr. DEVINS. From a railroad standpoint, very good.

Senator BENSON. And it is a desirable place to live?

Mr. DEVINS. Yes.

Senator SHIPSTEAD. Before you leave the stand, do you know of any towns in the State of Illinois that would be deprived of railroad service under this so-called application?

Mr. DEVINS. No, sir.

Senator SHIPSTEAD. Illinois is taken care of pretty well?

Mr. DEVINS. I would say so.

Senator SHIPSTEAD. If there is nothing further, we will stand adjourned until 10:30 o'clock on Monday morning.

(Thereupon, at 12 noon, an adjournment was taken until Monday, May 18, 1936, at 10:30 a. m.)

PROPOSED SALE OF MINNEAPOLIS & ST. LOUIS RAILROAD

MONDAY, MAY 18, 1936

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE
ON INTERSTATE COMMERCE,
Washington, D. C.

The subcommittee met at 10:30 a. m., in room 357, Senate Office Building, pursuant to adjournment on Friday, May 15, 1936, Senator Henrik Shipstead (chairman of the subcommittee) presiding.

Present: Senators Shipstead (chairman of the subcommittee), Truman, and Benson.

Senator SHIPSTEAD. The subcommittee will come to order. Mr. Devins, will you take the stand again?

TESTIMONY OF JOHN W. DEVINS, GENERAL MANAGER OF THE MINNEAPOLIS & ST. LOUIS RAILROAD—Resumed

Senator SHIPSTEAD. Mr. Devins, in your testimony last week, on the last day of the hearing, you said that this railroad was worth $17,000,000. Will you state on what you based that valuation, and, if you can, break the sum of $17,000,000 down to the various parts, and tell us how you value it.

Mr. DEVINS. I do not have the exact detail with me, but the statement is based upon five divisions. Real estate or land, approximately $7,000,000.

Senator SHIPSTEAD. $7,000,000 for the real estate. On what do you base that value of $7,000,000?

Mr. DEVINS. That is the I. C. C. valuation back in 1917, which I understand determined on the basis of average of 1910 to 1914 land values.

Senator SHIPSTEAD. That was before the beginning of the war and before the period of inflation of values?

Mr. DEVINS. Yes.

Senator SHIPSTEAD. And they found that under the prices of that period it ought to be worth $7,000,000?

Mr. DEVINS. Yes, sir.

Senator SHIPSTEAD. Do you think it is worth any less now?

Mr. DEVINS. No; I do not. We have had occasion to purchase and sell property, as well as lease property, both ourselves and to others, and I think the prices we have paid and have received are certainly comparable with the basis for a calculation on setting up a $7,000,000 valuation on the entire property.

Senator SHIPSTEAD. You sold some property?

Mr. DEVINS. Yes.

Senator SHIPSTEAD. Have you any specific property in mind?

Mr. DEVINS. I think we sold eight-tenths of an acre of land located in the outskirts of a village in Minnesota less than a year ago for approximately $800. We paid $700 per village lot for each of two lots in a small town in Iowa.

Senator SHIPSTEAD. The land in Minnesota you sold for $800, did you say?

Mr. DEVINS. There was some litigation surrounding that. I think we offered it for $800, and the purchaser agreed to accept it, but because of some question of the deed it was finally determined on a lease basis.

Senator SHIPSTEAD. And what was the valuation as the basis for the lease?

Mr. DEVINS. I think it was $1,000 an acre, if I remember right.

Senator SHIPSTEAD. And you sold how much? Half an acre?

Mr. DEVINS. Eight-tenths.

Senator SHIPSTEAD. You sold eight-tenths of an acre. And can you tell us what the I. C. C. had valued it at under the price of 1910–14?

Mr. DEVINS. That particular piece, I cannot.

Senator SHIPSTEAD. You do not know what you paid for it in the first place, or had you acquired it prior to the valuation of the Interstate Commerce Commission in 1917?

Mr. DEVINS. I really do not know about that.

Senator SHIPSTEAD. Then you have $7,000,000 value of land. You are confident that that is worth as much now as it was in 1910?

Mr. DEVINS. I think so.

Senator SHIPSTEAD. Then you have the question of ties and rails.

Mr. DEVINS. I think ties and rails recovered would net $4,000,000.

Senator SHIPSTEAD. $4,000,000?

Mr. DEVINS. Yes.

Senator SHIPSTEAD. Then you have equipment.

Mr. DEVINS. I think the service life of the equipment to which I have reference, which is the equipment we have selected to continue to use, is worth approximately $4,500,000.

Senator SHIPSTEAD. In arriving at that value you have figured depreciation, have you?

Mr. DEVINS. Yes.

Senator SHIPSTEAD. How do you figure that depreciation? Under the rules of the Interstate Commerce Commission?

Mr. DEVINS. Under the rules of the Interstate Commerce Commission. I think the rate varies somewhat for our equipment, but I think for freight-car equipment it is 3.27 percent.

Senator SHIPSTEAD. Then you have some buildings and bridges?

Mr. DEVINS. We have some bridges and other structures which we consider to have a disposal value of approximately $1,000,000. We have particularly a bridge over the Mississippi River at Keithsburg, Ill., which should be worth one-half million dollars.

Senator SHIPSTEAD. Then you have supplies and inventory?

Mr. DEVINS. We have what we might describe as a clean stock of materials and supplies that are more or less standard, that could be used on any railroad, and I would place that inventory at a half a million dollars.

Senator SHIPSTEAD. You have ties and rails at $4,000,000; you have land at $7,000,000; you have equipment at $4,500,000; materials and supplies at $500,000; bridges and buildings, $1,000,000. That makes a total of $17,000,000?

Mr. DEVINS. It should.

Senator SHIPSTEAD. Thank you, Mr. Devins. You may stand aside.

(Mr. Devins left the witness stand.)

Senator SHIPSTEAD. Mr. Sprague, will you take the stand.

TESTIMONY OF L. C. SPRAGUE, MINNEAPOLIS, MINN., PRESIDENT AND CORECEIVER OF THE MINNEAPOLIS & ST. LOUIS RAILROAD

(The witness was duly sworn by the chairman of the subcommittee.)

Senator SHIPSTEAD. Will you give your name and address?

Mr. SPRAGUE. L. C. Sprague, Minneapolis Athletic Club, Minneapolis, Minn.

Senator SHIPSTEAD. And your present occupation?

Mr. SPRAGUE. President and coreceiver, Minneapolis & St. Louis Railroad.

Senator SHIPSTEAD. You are president and coreceiver?

Mr. SPRAGUE. Yes.

Senator SHIPSTEAD. How long have you been coreceiver and president of that road?

Mr. SPRAGUE. Since January 1, 1935.

Senator SHIPSTEAD. Will you give, in a general way, your experience as a railroad man. How long have you been in the railroad service, and what have been your duties as such, as an official and otherwise?

Mr. SPRAGUE. I started as a railroad call boy at 12 years of age and worked through various positions and various departments up to minor official positions in the mechanical department, minor official positions in the operating department, then into general official positions in various different railroads, and for 7 years operated the most severe railroad operating condition known in the world, so far as grades and curves and handling of heavy ore tonnage is concerned.

I then became a consulting engineer in New York and was recommended to Judge Booth for the position I now hold by Mr. Walter W. Colpitts, of the firm of Coverdale & Colpitts, famous consulting railway engineers of America.

Senator SHIPSTEAD. When you came to the M. & St. L. Railroad, in what condition did you find the property?

Mr. SPRAGUE. May I answer that this way, Senator? Like most other railroad men, I had heard that the Minneapolis & St. Louis was in a terrible shape, and I expected that my duties there would be of very short duration; and in organizing an inspection trip on January 7, 1935, to make a 10-day inspection of the railroad, I was amazed to find the good physical condition of the property. It had seemed to me that the property, if anything, had been overly maintained to handle the traffic that was then being moved; and I realized that I did not need to give very much thought for the moment to maintenance.

Senator SHIPSTEAD. What did you find was needed, if anything?

Mr. SPRAGUE. The first need of that property, finding a very short cash position, was immediate tonnage, realizing that no further money could be borrowed—and to meet the pay rolls, that was necessary—and in order to inaugurate a vigorous policy of traffic solicitation from off-line shippers. And to my amazement I found that most of the traffic solicitors had been dismissed from time to time previously, and it required an immediate building up of that department and a working out of a scheme in which I myself should take part to make an appeal to the shippers, and thereby gain tonnage. Judge Booth agreed to this policy, and it was immediately put into effect but did not begin to show results of any consequence until about August 1935; or, in other words, after the first 7 months.

I found also that the railroad had always been considered an agricultural carrier entirely, and that no one had ever attempted, apparently, to attract new industries to the property. And analyzing the marvelous cities that are located on the Minneapolis & St. Louis, coupled with the fact that large industry had a plan of decentralization, I brought to the railroad a competent industrial development manager; and since April 1, 1935, we have located, expanded, or improved over 100 industries, and this is now beginning to produce decidedly increased on-line loadings, the thought being that we should not depend entirely on a crop. In other words, we should make our running expenses and pay our bills out of our inbound and outbound tonnage incident to these industries, and if in turn we were favored with a crop that of itself would be that much more velvet.

Senator SHIPSTEAD. How was the crop in that territory last year?

Mr. SPRAGUE. The crop last year was some better than in the several previous years in which they suffered a drought. I think they got within about 51 percent of a full crop last year.

Senator SHIPSTEAD. About half a crop?

Mr. SPRAGUE. About half a crop.

Senator SHIPSTEAD. That is for the territory generally?

Mr. SPRAGUE. For the territory served by our railroad generally; yes, sir.

Senator SHIPSTEAD. What was the condition of the crop from Minneapolis to South Dakota?

Mr. SPRAGUE. It was not as good as they had anticipated by far, on account of rust.

Senator SHIPSTEAD. This change in the traffic department resulted then in an increase in business for the road and increased income?

Mr. SPRAGUE. A very decided increase in 1936 over 1935, and an increase in 1935, the last 5 months, over 1934.

Senator SHIPSTEAD. What was the percentage of increase in 1935 over 1934; do you know?

Mr. SPRAGUE. I cannot give you exactly the percentage. I can say that the gross income increased about $97,000 over 1934.

Senator SHIPSTEAD. The gross income?

Mr. SPRAGUE. Yes, sir.

Senator SHIPSTEAD. Have you any comparison of the increase of income for 1936 over 1934?

Mr. SPRAGUE. Over 1935, do you mean?

Senator SHIPSTEAD. Over 1935; yes.

Mr. SPRAGUE. Up to now our figures show that our increase in freight traffic is around 21½ percent greater than it was for 1935 for this period.

Senator SHIPSTEAD. I believe you stated the first 7 months was the most unremunerative period of the year?

Mr. SPRAGUE. They have always considered that the first 7 months was what they called a natural hump, and my policies have been to flatten that hump out and to strive very hard to have a net the first 6 months instead of a deficit.

Senator SHIPSTEAD. In addition to the change in the traffic department, did you make any change in the mechanical department or the operating department?

Mr. SPRAGUE. On this trip that I speak of, leaving Minneapolis on the 7th of January 1935, as you imagine, I took the entire staff with me. Having been a mechanician officer on the Great Northern and on the Baltimore & Ohio and Burlington, it was second nature for me immediately to look to the mechanical department, and I found that it was not properly manned or set up. Responsibility was divided, the morale was bad in the organization, and the equipment was terrible. And that was one of the first moves that was necessary to make, and bring a man there that I had much confidence in, and I knew could relieve me of the detail worries of mechanical department affairs.

Senator SHIPSTEAD. What do you mean, that the equipment was terrible?

Mr. SPRAGUE. The locomotive power was badly run down. I mean by that that the power they had there had not been kept up as it should have been kept up.

Senator SHIPSTEAD. Is it in good condition now?

Mr. SPRAGUE. Yes, sir. We have put 61 engines through the shop beginning March 1, 1935, and up until the 1st of this month, and my policy has always been that when a locomotive goes into the shop that you have to spend money on it, put it in shape so that it will pull cars and not be delaying the commodities on sidetracks waiting for running repairs.

Senator SHIPSTEAD. The expenses of that came out of the operating department?

Mr. SPRAGUE. I beg your pardon?

Senator SHIPSTEAD. The expense of putting those engines—what did you say, 67 engines?

Mr. SPRAGUE. Sixty-one.

Senator SHIPSTEAD. That came out of operating expenses?

Mr. SPRAGUE. That is an operating expense, of course, subdivided by Interstate Commerce Commission rules.

Senator SHIPSTEAD. Did you make any other changes?

Mr. SPRAGUE. Necessarily realizing that I was going to have to go out and solicit traffic myself, I worked out a policy of spending 10 days on the railroad and 10 days off, and to do that it was necessary to have also a man as general manager that had the capacity, the experience and familiarity with the property that I could place my confidence in, so that I would not have to be worried with details, and I am proud to say that I found such a man, and he is still in the position.

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Senator SHIPSTEAD. What position is that?

Mr. SPRAGUE. General manager.

Senator SHIPSTEAD. Mr. Devins?

Mr. SPRAGUE. Mr. J. W. Devins.

Senator SHIPSTEAD. It has been said that the Minneapolis & St. Louis Railroad begins nowhere and ends nowhere. The northern terminus is in Minneapolis, and I think the testimony shows that you have traffic arrangements with the Wabash to Kansas City.

Mr. SPRAGUE. Yes, sir; St. Louis and Kansas City.

Senator SHIPSTEAD. You do not go into Chicago?

Mr. SPRAGUE. Not directly; no, sir.

Senator SHIPSTEAD. Not directly. Do you go to Peoria?

Mr. SPRAGUE. Yes, sir.

Senator SHIPSTEAD. You have an outlet for the product or the traffic on the Minneapolis & St. Louis to the Southwest in connection with the Wabash to Kansas City?

Mr. SPRAGUE. Yes.

Senator SHIPSTEAD. And to the Southeast you go to Peoria?

Mr. SPRAGUE. To Peoria; connecting with the Illinois Terminal Railway and other southeastern carriers, such as the Baltimore & Ohio, the Big Four, and the Pennsylvania.

Senator SHIPSTEAD. You make connections there with railroads to the East?

Mr. SPRAGUE. Yes.

Senator SHIPSTEAD. So you have an outlet to the East for the traffic on the Minneapolis & St. Louis, both going east and coming west?

Mr. SPRAGUE. Yes. And in my opinion—and we have appealed with this thought to the shippers—the Peoria gateway provides an excellent westbound and northbound gateway for commodities originating east of Chicago to the Atlantic seaboard all the way south on that Atlantic seaboard, and up through St. Louis to Peoria, and escapes the congested area of the Chicago gateway, as well as saves on certain commodities as much as 12 hours from the Atlantic to Minneapolis.

I have looked at the M. & St. L. in two ways. As an east and west carrier using Des Moines and Pickering on the Milwaukee and Marshalltown on the Northwestern to and through Peoria east- and westbound.

I have looked at it as a north and south carrier from the Northwest through the Minneapolis gateway to Albia in conjunction with the Wabash. In that way we have appealed to our shippers, and the results this year are speaking for themselves.

Senator SHIPSTEAD. Do you mean to say that on traffic from the Atlantic coast to Minneapolis or Minneapolis to the Atlantic coast you save 12 hours of time of shipments going through Peoria rather than through Chicago?

Mr. SPRAGUE. We think we can, Senator.

Senator SHIPSTEAD. You do not know whether you can?

Mr. SPRAGUE. Yes; we do know. We have checked it; yes, sir.

Senator SHIPSTEAD. Time is important, particularly with some freight?

Mr. SPRAGUE. To a great many shippers; yes, sir.

Senator SHIPSTEAD. It would be an advantage that the Minneapolis & St. Louis Railroad had over other roads competing with it for eastern business?

Mr. SPRAGUE. Yes.

Senator SHIPSTEAD. And you go down to the Southwest through Kansas City as fast and as efficiently as any of them?

Mr. SPRAGUE. We think we can; yes.

Senator SHIPSTEAD. I think Mr. Devins said that he beat them on time that way?

Mr. SPRAGUE. Yes.

Senator SHIPSTEAD. In going through Peoria will there be a saving in more than time? Anything else? Expense, for instance?

Mr. SPRAGUE. My statement now must be general, because I have not with me the details, but there is a switching charge through some of the other terminals that is larger than through the Peoria gateway, which is probably absorbed by the carrier in most cases. In some cases not. But I am not fully qualified to answer your question.

Senator SHIPSTEAD. You are familiar with the territory of the Minneapolis & St. Louis Railway? You have been all over that territory?

Mr. SPRAGUE. Yes, sir; every foot of it.

Senator SHIPSTEAD. What are its prospects if we shall come back to a normal rainfall and a normal crop and a normal business? Have you appraised the future prospects for the road on the basis of the territory through which it passes, with normal conditions?

Mr. SPRAGUE. I have given it very serious consideration, because, as I stated, I have been on the Great Northern Railroad 20 years ago or more, and have a firm belief that the Northwest will come back to normal, and probably go ahead of normal. I have firm belief that the prospects of the Minneapolis & St. Louis are better than they ever have been, due to the policy of industrial development along its lines, and I feel that the general trend of decentralization of large industry cannot help but be beneficial to that railroad.

Senator SHIPSTEAD. Decentralizing of industry, did you say?

Mr. SPRAGUE. The decentralization of big industries. The tendency is to locate smaller industries, such as branch houses of Sears, Roebuck and Montgomery Ward and other big industries and manufacturers, such as the Ford Co., and all larger industries, are following out a policy now of putting out branches, and we have located, as I stated, a number of those on our line during the last year.

Senator SHIPSTEAD. Do you think that the Minneapolis & St. Louis Railroad can be operated as a unit, as one system, under normal conditions and a proper management?

Mr. SPRAGUE. I most certainly do believe that, Senator.

Senator SHIPSTEAD. You heard the testimony of Mr. Devins and the valuations which he placed upon the road of $17,000,000?

Mr. SPRAGUE. Yes, sir.

Senator SHIPSTEAD. Do you think that is approximately correct?

Mr. SPRAGUE. Yes, sir.

Senator SHIPSTEAD. That is for salvage if it was scrapped?

Mr. SPRAGUE. Approximately so; yes, sir.

Senator SHIPSTEAD. Like any other business, it would be worth more as a going concern, would it not?

Mr. SPRAGUE. Well, we now think it is a going concern, Senator.

Senator SHIPSTEAD. As a going concern it is worth more than it ordinarily would be for salvage and scrapping?

Mr. SPRAGUE. Yes, sir.

Senator SHIPSTEAD. And you agree with him that the road could be scrapped, and the land and everything sold and realize approximately $17,000,000?

Mr. SPRAGUE. I think approximately so.

Senator SHIPSTEAD. And do you agree that with its prospects and on its earning power that a valuation can be placed upon it higher than the $7,200,000 for which this road is expected to be sold or is asked to be sold?

Mr. SPRAGUE. I did not quite get your question. Do I believe that the value of the railroad is more than $7,200,000?

Senator SHIPSTEAD. Yes.

Mr. SPRAGUE. Very much more; yes, sir.

Senator SHIPSTEAD. Very much more?

Mr. SPRAGUE. Yes.

Senator SHIPSTEAD. Based on its earning power and based upon its value if it were scrapped and sold?

Mr. SPRAGUE. Yes, sir.

Senator TRUMAN. Mr. Sprague, we are here principally to find out what effect dismemberment would have upon the principal cities located on this railroad. I wish you would tell me what, in your opinion, the effect on the principal cities would be as the result of dismemberment of the railroad.

Mr. SPRAGUE. Well, Senator Truman, there are something like 100 communities that would be left without railroad service.

Senator TRUMAN. Take the principal cities, like Mason City and Des Moines.

Mr. SPRAGUE. The effect intrastate in the State of Iowa would be to raise the rates.

Senator TRUMAN. And curtail the service?

Mr. SPRAGUE. And curtail the service by leaving what is now our railroad on branch lines of the carriers proposed to take it over.

Senator TRUMAN. What effect would dismemberment have on Kansas City and St. Louis with respect to the traffic that comes in over the Minneapolis & St. Louis Railroad?

Mr. SPRAGUE. We think, in our opinion——

Senator TRUMAN. That is all I am asking you for—your opinion.

Mr. SPRAGUE. We think it will not be as good as it is now.

Senator TRUMAN. That is, the service from Minneapolis to Kansas City and from Minneapolis to St. Louis will not be as good without the Mineapolis & St. Louis Railroad as a unit as it is now?

Mr. SPRAGUE. That is correct.

Senator TRUMAN. What effect will the dismemberment have on the employees of the Minneapolis & St. Louis Railroad?

Mr. SPRAGUE. This, of course, is largely personal opinion formed by the various contacts with our own officers and other officers who, for 4 or 5 months previous to my coming with the railroad and for 4 or 5 months after my coming with it were there obtaining data.

I am firmly of the opinion that a very large number of our employees would not be taken care of.

Senator TRUMAN. Have you any opinion about what percentage of them would be left out?

Mr. SPRAGUE. I will have to give this as hearsay in the other hearing, and it has been testified to, I believe, by Mr. Devins. Mr. Christopher, the general superintendent of the Milwaukee, who conducted an investigation so far as our Minneapolis employee situation was concerned, indicated that about 90 out of our 1,050 employees would be retained.

Senator TRUMAN. Do you think that same percentage would hold good over the whole system?

Mr. SPRAGUE. I think it would, Senator Truman.

Senator TRUMAN. That is all.

Senator SHIPSTEAD. That will be all, Mr. Sprague. Thank you.

Mr. SPRAGUE. Senator, may I give one more statement?

Senator SHIPSTEAD. Give us any information that you have.

Mr. SPRAGUE. So far as abandonments on our railroad are concerned, we made a careful analysis as quickly as possible and found that there were 125.7 miles of railroad that were nonprofitable branch lines, and we acted quickly with the Interstate Commerce Commission hoping that we could save those expenditures in operations. And, as it has been previously testified to, these have been granted. And we think for the time being that 7 percent of the total mileage which contributed largely to the deficit is all of the abandonment that the community should suffer at present.

Senator TRUMAN. In the present proceeding they are asking for the abandonment of 502 miles, are they?

Mr. SPRAGUE. 550 miles.

Senator TRUMAN. 550 miles?

Mr. SPRAGUE. Yes. This map which I show you is not an exhibit, but we can have that as an exhibit if you care for it. That is the way my analysis was made up, as shown by those red lines there on that map.

Senator BENSON. Mr. Sprague, under the application of the Associated Railways Co., they propose to abandon the line that you are now operating from Albert Lea in Minnesota to Fort Dodge in Iowa. That is a direct line, is it not—more direct probably than any other line from the Twin Cities south to Fort Dodge?

Mr. SPRAGUE. That is a north-and-south direct line between those two points, and it runs through the finest farming country that lays outdoors and is a well-maintained railroad.

Senator BENSON. Albert Lea is a fine city in Minnesota, and Fort Dodge one of the finest cities in Iowa?

Mr. SPRAGUE. Yes, sir; both of them are fine cities in either State.

Senator BENSON. And there is a direct line from the Twin Cities to Albert Lea, and then the line from Albert Lea to Fort Dodge and on to Kansas City?

Mr. SPRAGUE. It is 103 miles of direct line of excellent railroad.

Senator BENSON. That they propose to abandon?

Mr. SPRAGUE. Yes.

Senator BENSON. Do you know any reason why they should want to abandon that line?

Mr. SPRAGUE. Not of my own personal knowledge, Senator.

Senator BENSON. That is also a direct line to Omaha, is it not?

Mr. SPRAGUE. It is in conjunction with the Illinois Central from Fort Dodge across to Tara, which part of their line we now use in operating from Fort Dodge to Des Moines.

Senator BENSON. Thank you, Mr. Sprague.

(The witness left the stand.)

Senator SHIPSTEAD. Mr. Edwards.

TESTIMONY OF D. C. EDWARDS, SOUTH MINNEAPOLIS, MINN., GENERAL SOLICITOR, MINNEAPOLIS & ST. LOUIS RAILROAD CO. RECEIVERS

(The witness was duly sworn by the chairman of the subcommittee.)

Senator SHIPSTEAD. Give your name and address.

Mr. EDWARDS. D. C. Edwards, general solicitor, Minneapolis & St. Louis Railroad Co. receivers, 4719 Humboldt Avenue, South Minneapolis.

Senator SHIPSTEAD. You are attorney for the railroad and the receiver?

Mr. EDWARDS. I am general solicitor for the receivers in charge of the litigation of the railroad and associated with Mr. C. W. Wright, whose title is counsel for the receivers.

Senator SHIPSTEAD. How long have you been with the railroad?

Mr. EDWARDS. I have been with the railroad this time since September 1, 1933. Prior to that time I was with the railroad during the period of Federal control and through the guarantee period, so-called, to about the 1st of November 1920.

Senator SHIPSTEAD. Through the guarantee period?

Mr. EDWARDS. Through the so-called guarantee period that was fixed under the Transportation Act, when the railroads were returned to their owners after Federal control. There was a 6-month period there; we have always called that the guarantee period.

Senator SHIPSTEAD. Why do you call that the guarantee period?

Mr. EDWARDS. Because the Transportation Act provided that for a 6-month period following the termination of Federal control there should be guaranteed to the owners of the properties a certain return, and it came to be called the guarantee period.

Senator SHIPSTEAD. That was before receivership?

Mr. EDWARDS. That was long before receivership. I was out of the railroad service from November 1920 until September 1933. I was in private practice in Minneapolis during that interval, except for some months that I spent down here in Washington.

Senator SHIPSTEAD. You heard the testimony that has been given here as to why the railroad went into receivership in 1923 and the condition of the road at that time financially and physically. Can you give us any explanation why that road has been so long in receivership?

Mr. EDWARDS. In the first place, the litigation between the various interests was not terminated until late in 1930. Just summarizing it as briefly as I may, the receivership occurred upon a creditor's bill following which shortly defaults were declared in the mortgages, and then foreclosure suits occurred. There were six of them. There were extended hearings on the claims of the preferred creditors. Some 4,500 of them were heard by a special master on an order of reference. There was a great deal of litigation about those claims directed toward determining their status as preferential claims or common claims.

Among those claims upon which preference was asserted was a claim of the United States Government for some three-million-odd dollars. The litigation about it went through the usual channels of the master, then to the court, then to the circuit court of appeals, and then to the United States Supreme Court. The claim of the Government for preference was contested by the trustees under the mortgages and by the other so-called current supply creditors. That litigation was terminated by a decision of the United States Supreme Court denying the Government preference.

Its claim arose from a loan by the Government shortly after Federal control to refinance the so-called "Pacific and extension mortgage", which matured in 1921, the principal amount of which was $1,380,000-odd. The other principal items in the Government's claim were represented by adjustments between the carrier and the Government arising out of the Federal-control period. These Federal-control termination adjustments were represented by two notes for $625,000 each. They were funded under section 207 of the Transportation Act. The note covering the Pacific extension mortgage and the funded notes following Federal control were secured by collateral refunding and extension bonds, which so far as I know the Government still owns.

Senator SHIPSTEAD. What was the total of the debt owing to the Government?

Mr. EDWARDS. The total of the debt owing the Government was approximately $3,000,000.

Senator SHIPSTEAD. $3,000,000?

Mr. EDWARDS. Yes.

Senator SHIPSTEAD. That is the total, and so far as you know it is still unpaid?

Mr. EDWARDS. That is right.

Senator SHIPSTEAD. Do you know the total amount of bonds held as security?

Mr. EDWARDS. About $3,877,000. They were to secure only the Pacific extension mortgage financing and the Federal control termination settlement. Part of the Government's claim is represented by an alleged overpayment following the guarantee period. It may be remembered that advances were made by the Government during that guarantee period, and the I. C. C. promulgated a formula following which readjustments were made. In accordance with the I. C. C. formula this carrier was said to owe $292,000 overpayment during the guarantee period. That amount had not been agreed to by the carrier and that claim was denied by the receivers counsel.

Senator SHIPSTEAD. These bonds that were given as security for that Government loan, were they bonds of a new issue made for that purpose?

Mr. EDWARDS. No; they were bonds which were part of a refunding and extension issue, of which I think some 8 million dollars are

issued and outstanding. The original issue contemplated $75,000,000 to refund and refinance and take up other outstanding indebtedness.

Senator SHIPSTEAD. And those bonds are a part of the $46,000,000 of the funded debt of the road?

Mr. EDWARDS. That is right. They are prior in lien as to a small part of the railroad, and subordinate in lien as to the greater part. I cannot give you the exact application of their priority without the mortgage record.

Senator SHIPSTEAD. If the railroad is sold in bankruptcy at forced sale, the price at which it is sold will affect all of the bonds outstanding more or less, including the bonds held by the Government for collateral?

Mr. EDWARDS. That is right.

Senator SHIPSTEAD. The road could not be reorganized until after this litigation had been carried through to its conclusion?

Mr. EDWARDS. That is correct, Senator.

Senator SHIPSTEAD. And that was in 1930?

Mr. EDWARDS. That was in 1930.

Senator SHIPSTEAD. Can you tell us why the road was not reorganized then?

Mr. EDWARDS. Well, I think plans were afoot then to reorganize it. They had made some progress when the depression we have been going through started, and the gross revenues fell off very rapidly. I think the revenues, as indicated by Mr. Anderson's exhibit, had been running around $15,000,000, $14,000,000, and in about 1931 they had dropped down to just around $10,000,000. There was a sharp drop in 1930 to about $12,000,000. Beginning in 1932 they dropped down to around $7,500,000, and they have continued that way through last year, until the latter part of last year there began an upward trend in gross revenues.

Very often during the litigation the Federal court indicated his thought that the management of a property of this sort ought to be in the hands of the owners and not in the hands of the court; and he expressed himself very vigorously on that subject.

Senator SHIPSTEAD. Who was that?

Mr. EDWARDS. Judge Booth, on two occasions when I was present. And at all times those who may be called the owners were confronted with this and obliged to show to the court that the condition of the country and the securities market in particular made it impossible to proceed with a reorganization. The problem of creating net income was the difficulty. It just could not be created on that sharp drop in revenues. There had not been a readjustment to—if I may use that expression—cut the suit to the cloth. I think the effort is being made to do that.

Senator SHIPSTEAD. That drop in the revenues of the railroads was quite universal throughout that period of the depression?

Mr. EDWARDS. That is right.

Senator SHIPSTEAD. And that had an effect on stopping the reorganization?

Mr. EDWARDS. Very decidedly so. As a matter of fact, beginning with the year 1932, which was the first serious year of drop off in revenues, that was the first time during the receivership when a marked net income deficit occurred. In 1929 the rehabilitation program of the receiver had, I think, shown a net income for that year in excess of a million dollars, while the revenues had kept up.

Senator TRUMAN. In your opinion, is dismemberment the proper solution of this problem? If that question embarrasses you, you do not need to answer it.

Mr. EDWARDS. I may say, Senator, that there is an alternative. There are several, I assume, that might be considered. Continued operation as a unit, or reduction of stub mileage, as has been suggested and as the receivers have done. I hardly think I should express an opinion as to the proper solution. I prefer not to.

Senator SHIPSTEAD. Would it be proper for you to say whether you think it can be reorganized and kept as a going concern?

Mr. EDWARDS. I think I have no hesitancy in saying this, that I do not regard reorganization as such, or its mechanics as involving any particular mystery or magic. I think the problem on this railroad is one of increasing its revenues, as Mr. Sprague has indicated, and converting those revenues into maximum net income. It seems to me that when that has been done, if it can be done and as it is being done, that reorganization will naturally occur.

Senator SHIPSTEAD. Take care of itself?

Mr. EDWARDS. Take care of itself.

Senator SHIPSTEAD. Congress has provided a method.

Mr. EDWARDS. There is available now the new bankruptcy method of reorganization, which is available to this carrier. Bankruptcy could supervene now and enlarge the powers of the court in bankruptcy as distinguished from receivership.

Senator SHIPSTEAD. You heard the testimony that was given as to the scrap value of the road?

Mr. EDWARDS. Yes.

Senator SHIPSTEAD. You heard that it has been valued at $17,000,000 for scrap. And if the railroad is sold for $7,200,000 the bonds representing the owners of the property will be affected, including those held by the Government as collateral, and the court would, in your opinion, take into consideration the value of the property and protect the bondholders, and get as high a price as the road ought to bring, and then, on the other hand, you realize the importance of preserving the line as a system for the benefit of these communities and for the employment of labor?

Mr. EDWARDS. I do. I might say this, Senator, and I am constrained to say it because of what occurred the other day when we suggested what our attitude should be, as directed by the court; and if I may be permitted I should like to make a short statement amplifying what was said then.

Something over a year ago, after this associated plan was in the making, we had a great many inquiries on the railroad from representatives of labor first, representatives of communities, traffic representatives, and innumerable people who came and asked to know what was being proposed. Labor particularly took the view that this plan would cause unemployment to a very large extent in their forces. I think the so-called Jones plan—that was the title it had out there then—was thought by labor then as a method after it was first broached in the press release, which would cause them a very large percentage of unemployment, and their representatives

came to us—they came to the receivers, they came to the comptroller, they came to everybody to get information of the character that was furnished here.

When the Associated plan developed by the filing with the Interstate Commerce Commission of its application, it, of course, had taken shape then, and we were asked prior to the formulation of that plan by those advocating it to furnish them information, and just before doing so we conferred with the court as to what we might furnish and what we might not. For his directions, in other words. And to every one, including those in Associated, who sought information about the railroad we furnished all the information that we were asked to furnish, to all alike. Associated's staff of auditors came in on the railroad and were there for several months assembling the data upon which its petition was based.

We furnished to labor a great deal of information. We furnished to communities a great deal of information. And finally, to facilitate the furnishing of that information, we had to organize it, and have it cleared through some one, because there was a hit or miss method of supplying information, so that we on the railroad had difficulty doing our job of running the railroad, and, therefore, at the suggestion of the operating coreceiver some months back we formed a committee, of which I was chairman, so that this information could clear through me in the interest of expediency and timesaving. Then the opposition to dismemberment took shape, and they selected their counsel, Mr. Elmquist, of St. Paul, and we were permitted by the court to furnish him any information which was factual, and so far as furnishing opinions was concerned, we were permitted, if we were called as witnesses in any hearing, to furnish opinions upon any matter upon which an appropriate foundation for an opinion could be laid. I say that because of my interruption a day or two ago. There had been no foundation laid for the general manager to express an opinion upon reorganization, and whatever may be his function on other railroads, it is not the function of the general manager of this railroad to have anything whatever to do with reorganization. And I think personally that it is not on most railroads. But in any event we may here furnish any information of any sort that the receivership history affords or that the records of the railroad make available.

Now, getting back to the question which prompted this statement. Organized labor has been very active in its opposition to this plan. They were the first in opposition to it. They gathered a great deal of data. And their view is, as I understand it, that a very small percentage of their present forces will stay in employment if this plan goes through. And I think it has been indicated here that in Minneapolis, where the general offices and the Cedar Lake shops are located, less than 10 percent of the present force of some 1,000 will be retained.

Senator SHIPSTEAD. Are you familiar with the court records in the receivership litigation?

Mr. EDWARDS. Quite. Besides my representation of the railroad I might say that my firm represented some $120,000-odd of preferred creditors' claims in the litigation, their interest as a group being chiefly represented by Messers. Carlson and Boutell, of Minneapolis,

but I was interested in the litigation from that angle for a long time, and when their rights were determined by the Court, it was thought there was no adverse interest in my representing the receivers in my present capacity.

Senator SHIPSTEAD. That was to establish their claim?

Mr. EDWARDS. That was to establish their claim of priority. There were some $2,200,000 of the accumulated material and supply claims of the character that the Minneapolis Steel & Machinery Co.'s was—it was the original complainant—that were found to have preference. They accrued under the so-called 6 months' prior rule, that is, 6 months prior to receivership. The receivers have paid $440,000 of those, and there remain unpaid a million and three-quarters of them. They are entitled to a preference over the bondholders upon the theory of an implied agreement that the bondholders will see to it that they are paid out of the income.

Senator SHIPSTEAD. Did the Federal Government put in its claim?

Mr. EDWARDS. The Federal Government put in its claim and claimed a preference, and if its theory had been correct it would have wiped out all of those preferred claims, as its status for preference was claimed to rest upon the general priority and sovereignty of Government, and a specific statute thought to apply.

Senator SHIPSTEAD. And the court did not sustain that.

Mr. EDWARDS. The court denied that.

Senator SHIPSTEAD. The court denied it preference?

Mr. EDWARDS. The court denied it preference. The court held it as a common claim.

Senator SHIPSTEAD. And then the Federal Government stands on a footing with the other unpreferred creditors?

Mr. EDWARDS. Exactly.

Senator SHIPSTEAD. I have here printed copy of a part of the receivership record in the Federal court in Minneapolis, and I understand the Government was not a party, but they did intervene and put in a claim?

Mr. EDWARDS. That is right.

Senator SHIPSTEAD. For the record I want to read the Government position at that time. This is taken from page 7135, schedule B, of the receivership record in the Federal court. It is a letter from the Special Assistant to the Attorney General. It is signed by Elmer B. Collins, Special Assistant to the Attorney General. The letter is as follows:

DEPARTMENT OF JUSTICE,
OFFICE OF THE ASSISTANT ATTORNEY GENERAL,
Washington, August 28, 1931.

GUARANTY TRUST CO. OF NEW YORK.
140 Broadway, New York, N. Y.

(*Guaranty Trust Company of New York, as trustee, et al.* v. *The Minneapolis & St. Louis Railroad Company, et al.*)

GENTLEMEN: The Treasury Department received and transmitted to this Department copy of the petition filed by the trustees of the first consolidated mortgage and the Des Moines & Fort Dodge first mortgage, seeking a separate sale of the property covered by their respective mortgages and involved in the above-entitled proceedings before Judge Booth at Minneapolis. Since the hearing on the order to show cause was had at Minneapolis, Thursday, August 20, the United States attorney there has informed the undersigned that Judge Booth allowed until August 31 for interested parties to file answers to the petition and affidavits in opposition to the petition setting forth the reasons

why the separate sale of the property covered by those mortgages, or a sale of the entire property at this time should not be had.

The Treasury Department holds as security for indebtedness under sections 207 and 209, Transportation Act, 1920, $2,377,000 of the railroad company's refunding and extension-mortgage bonds, pursuant to certificate and authorization issued by the Interstate Commerce Commission in 1921. While the Government is not a formal party to this phase of the foreclosure proceedings, it is, of course, much interested in the proceedings because of the debts which it holds against the railroad property. For these reasons it is deemed more appropriate that the interests of the Government as holder of refunding and extension bonds be represented by counsel for the trustee under that mortgage.

The extent of the Government's financial interests in the foreclosure proceedings is such that we feel it our duty to go on record as opposing either the separate sale of portions of the property sought by the petition, or of a sale at the present time and under present conditions of the whole property. We understand that counsel have already called to the court's attention the operating and other handicaps which will result should the property be sold in sections or piecemeal and, therefore, deem it unnecessary to repeat those grounds for opposing the separate sale. However, for those reasons we feel that a separate sale, or even an attempt to sell the entire property at this time would be most disadvantageous, and that any sale should be postponed to a more propitious time and condition if it is possible to continue operating the property in receivership.

The Government is in a somewhat unique, if not unfortunate, situation with respect to protection of its interest as a bondholder for the reason that its authority and that of its agents to deal with the railroad company's indebtedness to it is severely restricted by statutory requirements, making it impossible in our judgment for the Treasury Department now to enter into a reorganization plan or agreement to the extent necessary to protect the Government's interests. I might add in this connection that an effort has been made to relieve that Department from these handicaps by having Congress to enact legislation which would remove the disabilities now attending the Secretary of the Treasury in the management of indebtedness to the Government under the Transportation Act, 1920. The recommendation of the Treasury Department is contained in its annual report, at page 40, for 1930. Whether Congress will immediately enact the enabling legislation is, of course, problematical, but should the legislation pass, the Government would then be in position to enter into negotiations without restriction and, we think, to the best interests of all concerned in the property.

While again it is problematical how soon the tension surrounding securities of this type may be relieved, it is a matter of public knowledge that the conditions affecting both the operating and the financial interests of railroads are at present unhealthy. Indeed, in hearings now going on before the Interstate Commerce Commission upon the application of all the carriers for a 15 percent increase, the outstanding reason cited for the increase is the condition of railroad securities on the public market at this time. Statements of that nature are, of course, supported by reference to the recent comparatively low operating incomes of the various railroads resulting from shrinking traffic volume.

We, of course, fully appreciate that the receivership should end at the earliest possible date, nevertheless, if it is possible to continue it and to postpone the sale of the property in its entirety until the Government is in position legally to negotiate in behalf of its interests as an ordinary bondholder, or until the existing depression in the security market has been somewhat relieved, we feel that such postponement would be to the interests not only of the Government as holder of refunding and extension bonds, but also to the interests of all creditors having claims against the property.

It is hoped that your counsel may at least furnish the court with a statement of the Government's position as outlined above, particularly since the Government is not a formal party to the proceedings.

Yours very truly,

ELMER B. COLLINS,
Special Assistant to the Attorney General.

Have you any other information that might be helpful to the committee?

Mr. EDWARDS. It occurred to me to amplify a little on the litigation. There were the six foreclosure suits handled separately by the master. There was considerable litigation about the allocations of equipment to the several mortgages.

One of the things that occupied a great deal of time with the master and the court was the establishment of what is known as the diversion fund, which was, without going into its technicalities, rather important to protect the rights of former creditors. The theory is that they are entitled to the earnings of the receivership, the income of the receivership, ahead of the bondholders and that they are entitled to the diverted income for a period prior to the receivership. Just what that income consisted of was the subject of very marked dispute between the litigants, the trustees, and the various other parties to the litigation.

If there are any other angles of the litigation about which the committee would like advice, I should be glad to speak on them.

Senator BENSON. You are quite familiar with the application of the Associated Railways?

Mr. EDWARDS. I know quite a little about it.

Senator BENSON. Did you hear Mr. Sweet who testified regarding the so-called Merriam Junction mortgage?

Mr. EDWARDS. Yes.

Senator BENSON. As I recall it, he testified that, in his opinion, the Merriam Junction mortgage would be paid out of the $7,200,000 offered by the Associated Railways; is that correct?

Mr. EDWARDS. That is right.

Senator BENSON. Is that your interpretation?

Mr. EDWARDS. That would be so if the disposition of the property goes through. This was in connection with it. That is one of the things that is to be paid or assumed by any purchaser.

Senator BENSON. Have you any opinion regarding the efficiency of the management of the railroad under the present receivership as compared with prior management?

Mr. EDWARDS. I have no opinion on that, Senator, that I would care to express, except that I might say this one thing: That the new régime has done, which the railroad seemed to need, that that was to direct itself essentially to its traffic problem.

I think Mr. Sprague personally has devoted a very large part of his time to the solution of this essential problem, which has increased the gross revenues.

As to changes in operation, or that sort of thing, I think that the operating itself continues under Mr. Devins' direction, as it did before, subject to consultation with Mr. Sprague and subject to the revision he spoke of in the mechanical department.

Mr. Devins came up through the railroad and was assistant to the general manager for many years, and, I think, is regarded by men in railroading as a very competent operating man. He has the confidence of the receivers; and, if I may say so, he is doing a very excellent job.

Senator BENSON. Has the railroad under receivership run into extraordinary expenses due in part to the litigation you have mentioned and to other expenses made necessary by the receivership?

Mr. EDWARDS. Senator, I would not call it extraordinary, though in a sense, if one were to have had available the present legal machanery for railroad reorganization—I mean the present Bankruptcy Act as distinct from equity receivership—possibly a short cut might have been had. It might have been a little easier to deal with some of the litigants. There has been very extended litigation in this matter. The receivership record covers some 16 volumes, and it has about 10,000 pages. A large amount of that was controversial. Some of it—a very large amount—was administrative, but a great many matters were in great dispute, the Government controversy particularly. Of course, all of the trustees and their counsel, each seeking to place his client in the most favorable position, contested the claims of others. I suppose that that always occurs in litigation where divers interests exist. There was a great deal of it in this receivership.

Of course, receivership causes administrative expense. I think the testimony of Mr. Anderson indicated that some $800,000 was paid out on account of the allowances of trustees and their counsel and for the carrying on of the receivership litigation during the 10- or 12-year period.

I might say that counsel for the receiver besides handling this matter must handle some of the regular litigation for the railroad, and he did evidently handle a great volume of litigation. I think, if I were to express an opinion as a lawyer, I would certainly feel that for the amount of work that was done he was not overpaid, and I am not prejudiced as a lawyer.

Senator BENSON. I think you partially misunderstood my question. What I meant was that under the ordinary operation of the railroad you would not have incurred the expense that you did in connection with the receivership, due to those various legal expenses.

Mr. EDWARDS. Not at all.

Senator BENSON. That would have been a saving under the ordinary operation?

Mr. EDWARDS. Exactly.

Senator BENSON. That is what I had in mind.

Mr. EDWARDS. That is right, Senator.

Senator BENSON. I did not want to infer that you were being overpaid.

Mr. EDWARDS. No. I had in mind the allowances that had been made to former counsel, Senator.

Senator SHIPSTEAD. Is that all?

Mr. EDWARDS. I had in mind a matter about which you inquired with respect to values. You mentioned a piece of land and inquired as to its I. C. C. value. On the small piece of land down at Waterville, that was determined to have a thousand-dollar value, the I. C. C. value was $175. That was the 1917 value.

I know about that because a controversy arose about making a sale of that piece of land, for which there was willing to be paid $830 for eighty-three one-hundredths of an acre. Because one of the mortgagees would not release the lien of his mortgage unless it got the money, to simplify the matter a 25-year lease was given, and we had to resubmit the lease to the court on a lease basis, instead of a sale basis.

Senator SHIPSTEAD. That lease was approved by the court?

Mr. EDWARDS. That lease was approved by the court.

Senator SHIPSTEAD. What was the basis for the valuation?

Mr. EDWARDS. $830.

Senator SHIPSTEAD. And the I. C. C. had valued the land at $175?

Mr. EDWARDS. That is right.

Senator SHIPSTEAD. Was there anything that occurred in the community to increase the value in that manner?

Mr. EDWARDS. I think not.

Senator SHIPSTEAD. What town was it?

Mr. EDWARDS. The town of Waterville, on the main line.

Senator SHIPSTEAD. A small town?

Mr. EDWARDS. Yes; a small town; about the mill-run of small towns on the line, just making whatever progress we are making out there.

Senator SHIPSTEAD. I think we will adjourn until Wednesday morning at 10:30.

(Thereupon, at 11:55 a. m., an adjournment was taken until Wednesday, May 20, 1936, at 10:30 a. m.)

PROPOSED SALE OF MINNEAPOLIS & ST. LOUIS RAILROAD

WEDNESDAY, MAY 20, 1936

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE
ON INTERSTATE COMMERCE,
Washington, D. C.

The subcommittee met, pursuant to adjournment on yesterday, at 10:30 a. m., in room 357, Senate Office Building, Senator Henrik Shipstead (chairman of the subcommittee) presiding.

Present: Senators Shipstead (chairman of the subcommittee), Truman, and Benson.

Also present: Senator Murphy.

Senator SHIPSTEAD. The subcommittee will come to order. Mr. Wright, will you take the stand?

TESTIMONY OF C. W. WRIGHT, MINNEAPOLIS, MINN., COUNSEL FOR THE CORECEIVERS OF THE MINNEAPOLIS & ST. LOUIS RAILROAD

(The witness was duly sworn by the chairman of the subcommittee.)

Senator SHIPSTEAD. Will you give your name, your residence, and your occupation?

Mr. WRIGHT. C. W. Wright; 1805 West Lake Street, in Minneapolis. The office address is 601 Transportation Building. I am counsel for the coreceivers of the Minneapolis & St. Louis Railroad. I have been counsel for the former receiver and coreceivers since February 16, 1932. Prior to that time I was general attorney and general solicitor, dating back to January 1, 1922, with the same railroad.

Senator SHIPSTEAD. You are familiar with the proposed dismemberment of the Minneapolis & St. Louis Railroad?

Mr. WRIGHT. Yes, sir.

Senator SHIPSTEAD. And are you familiar with section 77 (b) of the Bankruptcy Act?

Mr. WRIGHT. Yes, sir.

Senator SHIPSTEAD. What means for reorganization of the property, to your knowledge, are available?

Mr. WRIGHT. If the committee please, we are under instructions from the court neither to favor nor to oppose any particular plan of reorganization, but there are these several methods open to reorganization: Of course, the present final decree of foreclosure and sale affords one possible method. Another possible method now available, which was not available at the time the final decree was entered, is section 77 (b) of the Bankruptcy Act, which specifically

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provides that railroads in receivership may be reorganized under that section.

Do you care to have me state any further as to the details?

Senator SHIPSTEAD. No; I do not think so. Are you familiar with the various applications for loans that have been made by the receivers and others for funds with which to continue to operate or to reorganize the Minneapolis & St. Louis Railroad?

Mr. WRIGHT. There have been several applications—two applications—for loans from the Reconstruction Finance Corporation by the former receiver. Neither of them were directly connected with reorganization.

Senator SHIPSTEAD. Will you state what they were, and what were their purpose, and what became of the applications?

Mr. WRIGHT. The first application was made on February 25, 1932, and that was the date of the order of the court authorizing it. The application was made on March 22, 1932. It was an application for a loan aggregating $3,898,629.50. Nine hundred and fifty thousand dollars of that was to be applied for paying the principal of the so-called Merriam Junction-Albert Lea bonds; $1,748,629.50 was to pay the principal of preferred claims; $1,200,000 was either to pay receiver's certificates or reimburse the receiver for the small amount of $15,000 of certificates which he had been required to pay. These applications had to be submitted to the Interstate Commerce Commission.

Senator SHIPSTEAD. Were they submitted to the Interstate Commerce Commission first?

Mr. WRIGHT. Yes.

Senator SHIPSTEAD. The process of obtaining the loan was initiating the application with the Interstate Commerce Commission?

Mr. WRIGHT. It was filed with the Reconstruction Finance Corporation and also with the Interstate Commerce Commission.

Senator SHIPSTEAD. Simultaneously?

Mr. WRIGHT. Yes. And we had to get the approval of the Interstate Commerce Commission before going further with the Reconstruction Finance Corporation. The Interstate Commerce Commission approved a loan sufficient to pay the principal of the Merriam Junction-Albert Lea bonds and the principal of the preferred claims, but denied the application insofar as it pertained to receiver's certificates. The Reconstruction Finance Corporation in September 1932 denied the application in toto.

Senator SHIPSTEAD. That was the first application?

Mr. WRIGHT. That was the first application. The second application was made by order of the district court dated January 31, 1933. It was filed with the Reconstruction Finance Corporation on February 6, 1933. It was an application for a loan of $1,027,174.52. The purpose of the loan was to pay vouchers waiting payment as of January 28, 1933, in the sum of $511,268.72, the principal and interest on four equipment trusts falling due in the first 6 months of 1933 for $220,905.80, and installments of taxes falling due in the first half of 1933, $295,000. This application was approved by the Interstate Commerce Commission but was denied by the Reconstruction Finance Corporation on June 23, 1933.

Those are the only two applications by the receivers. There have been, as I understand, two subsequent applications, one by the reorganization committee in New York, or somebody in its behalf, on which the Reconstruction Finance Corporation made a tentative commitment of $4,750,000.

Senator SHIPSTEAD. By the way, before you continue, can you tell us on what grounds the Reconstruction Finance Corporation turned down that second application for loan that was approved by the Interstate Commerce Commission?

Mr. WRIGHT. I cannot say.

Senator SHIPSTEAD. Continue.

Mr. WRIGHT. The only participation the receivership estate had in the $4,750,000 matter was that the committee in New York advised the coreceivers—or the receiver as it was at that time—that an application in bankruptcy would be desirable to facilitate the reorganization pursuant to that loan, and a meeting of the directors of the corporation was called for the purpose of passing a resolution authorizing the officers to put the corporation in bankruptcy, and a day or two before the meeting we were informed that the Reconstruction Finance Corporation had requested that the corporation be not placed in bankruptcy pending the disposition of the so-called Associated Railways plan. That meeting of the corporation was consequently never held.

Then the fourth matter before the Reconstruction Finance Corporation in regard to a loan for the M. & St. L. Railroad is the Associated Railways plan. The coreceivers have nothing to do with that. That is, they are not parties to it. They are merely operating the railroad as stakeholders.

Senator SHIPSTEAD. The reorganization committee suggested receiver in bankruptcy and asked for a loan of $4,000,000?

Mr. WRIGHT. The third matter I spoke of concerning a loan of $4,750,000, as I understand it, was initiated by a subcommittee of the reorganization committee. The reorganization committee consists of the chairmen of each bondholder's committee. There are about 8 or 10 of them. This reorganization committee had appointed a subcommittee consisting of Mr. Philip Roosevelt, Mr. Lissman, and Mr. Colpitts.

Senator SHIPSTEAD. Was that a committee representing all of the bondholders?

Mr. WRIGHT. My information is that it represented all the bondholders.

Senator SHIPSTEAD. And they had agreed on a plan of reorganization through bankruptcy?

Mr. WRIGHT. So we were advised; yes, sir.

Senator SHIPSTEAD. And to carry through that plan they asked for a loan of $4,750,000 from the Reconstruction Finance Corporation?

Mr. WRIGHT. Yes.

Senator SHIPSTEAD. Had they presented an application for that loan, do you know?

Mr. WRIGHT. I cannot say.

Senator SHIPSTEAD. It has been testified here concerning the plan to dismember the Minneapolis & St. Louis Railroad and sell it for $7,200,000; that is, the testimony in the record before the I. C. C. shows that it is claimed that it is necessary to sell it and to dismember it. In the hearings before our committee testimony has been

introduced to show that since that plan was brought forward a great change has taken place in the earnings of the railroad, and considerable evidence has been introduced here to lead to the suggestion that the road can keep on operating as a unit and pay its current expenses if it is given proper time, and that it is not necessary at the present time to sell the railroad. That conditions have improved recently. That there was a plan some years ago, I do not remember the year, at which time the Department of Justice on behalf of the United States Government as a creditor protested in a letter against the sale of the railroad at that time, because the claim of the United States Government would be jeopardized as well as other bondholders. Are you familiar with the proceedings that took place at that time?

Mr. WRIGHT. Yes, sir.

Senator SHIPSTEAD. Do you think that in view of the change that has taken place and the estimate of the future earnings of the road based upon what it has done under the new management, that the railroad could continue to operate and continue to pay these current charges down to the funded debt?

Mr. WRIGHT. If the committee please, I am merely the counsel for the road, and not either an operating man or an accountant, but from my familiarity with the affairs of the road it is my opinion that it is possible to operate the property as a unit and to pay a fair return upon a reasonable amount of capitalization.

Senator TRUMAN. What would you consider a reasonable amount of capitalization?

Mr. WRIGHT. $15,000,000.

Senator SHIPSTEAD. Are there any further questions of this witness?

Senator BENSON. During the period of the receivership—let us say the past 10 or 11 years—has the railroad been put to unusual or extraordinary expenses in the way of conducting the railroad due to the receivership—that is, for instance, lawsuits?

Mr. WRIGHT. There have been some expenses brought about by the receivership, and also some expenses sustained by the receivership which were due to the former corporation.

Senator BENSON. Do you know approximately how much has been spent in attorney's fees and legal services during the past 10 or 11 years?

Mr. WRIGHT. About $600,000.

Senator SHIPSTEAD. Is that during the life of the receivership?

Mr. WRIGHT. Yes, sir.

Senator SHIPSTEAD. You have had considerable litigation to establish the various claims, as I understand?

Mr. WRIGHT. Yes, sir; there were several thousand claims filed with the special master, all of which had to be determined, and there were five appeals on various phases of the receivership litigation, resulting out of disputes between the interested parties as to which had preference or which was entitled to certain positions in the picture. Five appeals to the Circuit Court of Appeals and two of those appeals went to the United States Supreme Court.

Senator SHIPSTEAD. Did you express it as your opinion that this road ought to be organized under 77b? You merely stated that that was available?

Mr. WRIGHT. It is available.

Senator SHIPSTEAD. And the plan had been formulated to the best of your knowledge by a committee representing all the bondholders to take that method of reorganization?

Mr. WRIGHT. Yes, sir.

Senator SHIPSTEAD. And it applied for a loan to the Reconstruction Finance Corporation of $4,750,000?

Mr. WRIGHT. I do not know how far their applications have gone. All I know was what was in the papers, that the R. F. C. had made a tentative commitment.

Senator SHIPSTEAD. I see. Then I will not press you any further on that line.

Senator MURPHY. Mr. Wright, the thought in my mind is this, that we provided in the Bankruptcy Act for corporations under 77b, a harbor and refuge for corporations such as railroad corporations in distress, as you know. What occurs to me is that if this railroad availed itself of 77b it could continue its operations.

The evidence here discloses that the bondholders are going to get about $2,000,000 out of the sale of this railroad, an absurdly low amount, an amount which I would assume they would not be disposed to accept. Now, has any effort been made to get this railroad under 77b?

Mr. WRIGHT. I testified that at the time that the committee was working in New York they asked us to put the corporation in bankruptcy, but we were directed not to do so before the time came. That is the only effort that has been made.

Senator MURPHY. When was that time to be?

Mr. WRIGHT. Well, that was in 1934.

Senator MURPHY. That time has not yet arrived?

Mr. WRIGHT. No; we were going to put it in bankruptcy right away at that time in 1934 and we were called off on account of the plan of the Associated Railways, and that plan is still being investigated.

Senator MURPHY. Well, you have receivership certificates outstanding now?

Mr. WRIGHT. Yes, sir.

Senator MURPHY. If they were paid off, would not this railroad be free, then, to act through its board of directors to avail itself of 77b?

Mr. WRIGHT. If the Senator please, the railroad can be put under 77 or 77b, whichever it is, the Bankruptcy Act, without regard to the receivership certificates. The statute expressly so provides.

Now, if we come to the statute, it apparently contemplates that all parties having any interest in the property shall come in and take bonds or whatever the arrangement is, to the extent of their holdings and the proportionate value. If applied to the M. & St. L., it is my opinion that it would be necessary to pay off the receivers' certificates not before the corporation was put in bankruptcy but before the bankruptcy proceedings were concluded. It would be necessary also to pay certain reorganization expenses and the allowances to various parties, whatever they might be. That is somewhat of an estimate, but I would suggest as a figure $500,000. Certainly an amount, the difference between $1,185,000, the amount of

certificates now outstanding, and $2,000,000 would cover all of the other expenses. So that, with the addition of $2,000,000, a reorganization would be possible under the bankruptcy statute, assuming that all parties—a plan could be devised which would be acceptable to two-thirds of the holders of each grade of securities.

Now, I assume the question of whether that can be accomplished is no different on the M. & St. L. than it is on any other railroad, and it is purely a factual question, a practical matter.

Senator MURPHY. No effort has been made to do that, presumably, because you did not see where you could get the money that would be necessary to meet these receivers' certificates and the expenses of reorganization, and so forth?

Mr. WRIGHT. The money, up to the present time, has not been available.

Senator SHIPSTEAD. Has an effort been made to obtain the money for such a reorganization, to the best of your knowledge?

Mr. WRIGHT. My understanding is that money is not available from private sources for the reorganization of any railroad, certainly not for the reorganization of this one.

Now, as I have already said, we were told to wait with the R. F. C. until this Associated Railways plan had been concluded. I don't know whether it would be available from that source or not. No effort has been made by the court receivers to obtain it.

Senator SHIPSTEAD. Then, from that source, you were told to wait?

Mr. WRIGHT. Yes, sir.

Senator SHIPSTEAD. By whom?

Mr. WRIGHT. Well, I cannot state positively by whom. The word was conveyed to me, I think, by Mr. Lissman, and it was my understanding that he had it from the R. F. C.

Senator SHIPSTEAD. Would it be a fair assumption to assume that the R. F. C. gave this proposed application the right-of-way?

Mr. WRIGHT. Of course, that would be a conclusion.

Senator MURPHY. Well, it would appear from the statement of the witness that you are holding off any movement to go under 77b because of prior consideration for the plan now before the R. F. C. for sale, dismemberment, and abandonment. There ought to be, obviously, at least, contemporaneous consideration. One ought not to be given priority over the other. The reorganization under 77b is out the window if the R. F. C.'s present plan is adopted. The reorganization under 77b will not be considered, we appear to be justified in concluding so long as this proposition of sale stays before the R. F. C. It seems that there is the necessity for reorganizing under 77b if equity holders are to get anything out of the railroad. I personally believe from what I have heard in these proceedings that 77b is the salvation of the railroad. The continued operation and eventual salvage in a much larger measure for the bondholders can be brought about by these proceedings under section 77b. It is the first step of all to reduce the overhead imposed by the receivership, which the railroad is now under. That covers about all there is to say on this subject, does it not, Mr. Wright?

Mr. WRIGHT. I think so. I take it your question was designed to develop what was necessary to reorganize under the Bankruptcy Act.

Senator MURPHY. Yes.

Mr. WRIGHT. If I might state my opinion again, it is my opinion that a petition could be filed now by the corporation at any time, which would put the railroad in bankruptcy, that before it could be taken out of bankruptcy it would be necessary to find cash to pay the receivers' certificates, aggregating $1,185,000, and probably also cash to pay certain expenses of approximately $500,000, or, say, not to exceed an aggregate of $2,000,000 of cash at the present time. A reorganization could be effected providing a plan were advanced which complied with the terms of the act and was approved by two thirds of the holders of each class of securities. Now, that last proposition is purely a practical matter and not a legal question, as to whether the proposed plan, whatever it was, met the approval of the holders.

Senator MURPHY. So that it comes to this: If the railroad reorganized, the equity holders in the railroad would have the same equity as they have today.

Mr. WRIGHT. I assume that the plan would substantially do that.

Senator MURPHY. That is a fair assumption because the condition precedent to an agreement by the equity holders of the railroad would be an equality of treatment of the securities of the railroad which they hold. Necessarily, that would be implied.

Mr. WRIGHT. Unless the plan so provided, I assume it would not be approved by them.

Senator MURPHY. Are you impressed that the adoption of this plan under 77b, the reorganization under the Bankruptcy Act, is the one plan that could be followed to assure this railroad against dismemberment and abandonment and to assure also to the equity holders in the railroad the maximum of return on the investment they have made?

Mr. WRIGHT. If I might answer it this way, it is a plan which can accomplish the operation of the railroad as a unit and can save for these various parties in interest their respective interests. Now, it may not be the only plan.

Senator MURPHY. I understand; but a plan of that effect.

Mr. WRIGHT. A plan can be worked out in bankruptcy, assuming the $2,000,000 can be provided, which will keep the railroad in operation as a unit and will afford to the security holders approximately the same interests they now have in it.

Senator MURPHY. Yes.

Mr. WRIGHT. Not only the bondholders but all parties in interest.

Senator MURPHY. Yes.

Senator SHIPSTEAD. I think it is an extraordinary procedure when an agency of the Government, endowed with public funds to loan to distressed industry on ample security, should disregard the method of reorganization that has been created by Congress under section 77b and propose to take the application that would kill the railroad, put all these people out of work, and leave these communities without railroad service. The purpose of Congress was to help industry and keep it alive and to survive, not to injure it. And under the plan which under the testimony that has been given here this does not give the bondholders the square deal they might have under another plan.

Senator MURPHY. I think this has covered the subject pretty thoroughly, unless the Senator has some questions to ask.

Senator BENSON. Mr. Wright, in your opinion, would the Government have a chance of recovering more under some other plan of

reorganization than it would have under this present plan of the Associated Railways Co. and their claim?

Mr. WRIGHT. You are referring to the bonds they hold as collateral for the loan?

Senator BENSON. Yes.

Mr. WRIGHT. My information is that the plan of the Associated Railways will provide—it will liquidate those bonds at about $3 a thousand. I believe any other plan is almost certain to produce a greater value than that, a substantially greater value.

Senator MURPHY. That would be an almost irreducible minimum.

Senator SHIPSTEAD. Thank you, Mr. Wright.

(The witness thereupon left the committee table.)

Senator SHIPSTEAD. Mr. Edwards, will you take the stand?

TESTIMONY OF D. C. EDWARDS—Resumed

Senator SHIPSTEAD. Mr. Edwards, you testified the other day that the reorganization of the road was delayed because of the litigation, and at that time I think the record shows that you testified that that was cleared up, or at least I think the committee had the understanding that that litigation was cleared up by 1930. Is that correct?

Mr. EDWARDS. That is not exactly correct. I had in my mind the date of the final decree. By its terms the decree specifically reserved all questions relating to claims and the extent to which claims are prior in lien or superior in equity to the mortgages. That litigation had not yet been concluded. It was essential to a determination about that matter not only to establish the preferential status of the claims which had already occurred in the litigation but also to establish a fund—actual or potential—from which those claims could be paid. With the decree in that condition, no bidder at a sale could know exactly what he had to pay or assume in respect to preferred claims. Therefore there occurred a hearing of some length before the master in which it was sought to be shown that diversions of income occurred during the receivership to create the fund out of which these claims could be paid. That was rather extended, and when finally determined—I cannot fix the exact date, but some considerable time after 1930, in December, when the final decree order was filed. The first sale date that was fixed by the court, as I recall it, was September 5, 1934.

Senator SHIPSTEAD. It could not be sold before that time?

Mr. EDWARDS. It apparently could not be offered for sale before that time or a sale date suggested earlier than that.

Senator SHIPSTEAD. Due to necessary litigation?

Mr. EDWARDS. Necessary litigation. And I assume the economic conditions were also a factor. In any event, the court did not suggest a sale date earlier than that time.

During the interval between the time of the final decree and the first suggested sale date in September 1934 there occurred this litigation in which the Government, not a party, opposed the proposed separate sale of the property covered by one of the mortgages and the proposed dismemberment of the railroad which would result if that occurred. That objection was offered by the Guaranty Trust Co., as trustee under the refunding and extension mortgage, and incorporated in the objection by that trustee was the letter which

was read into the record from the Department of Justice. The committee representing the refunding and extension bonds also voiced an objection to the proposed dismemberment on the ground that the other ownership of those bonds would be seriously affected. As a matter of fact, the larger ownership of the refunding and extension bonds rested in the Government, and there was no then available method—there is not now, for that matter—by which the Government could participate in negotiations looking to the protection of its interest.

I think the parties generally opposed that dismemberment.

Senator SHIPSTEAD. Who proposed that dismemberment?

Mr. EDWARDS. The proposal was by the trustee and the committee for a separate sale of property covered by the Fort Dodge and Des Moines mortgage and the first consolidated mortgage.

Senator SHIPSTEAD. They applied for a sale of the property?

Mr. EDWARDS. They applied for a separate sale of their property, and the net effect and result of that would have been a dismemberment of the railroad.

Senator SHIPSTEAD. They wanted it sold by the court, and to be sold to the highest bidder?

Mr. EDWARDS. That is right. I think all of the parties to the litigation opposed that proposed sale—practically all. Everyone who appeared, except the petitioner, opposed it, and the application was denied.

Was there anything further the committee had on that subject?

Senator SHIPSTEAD. Yes. I should like to ask you another question. Can you give us the taxable value of the railroad—the value for taxation purposes?

Mr. EDWARDS. Well, the assessed value of the property in Iowa is $2,761,960. In South Dakota, $2,138,688. In Illinois, $1,055,300. In Minnesota we do not determine assessed value as we do in the other States. We have a gross earnings tax there. We are assessed in Minnesota for special improvements, as other property owners, and we are assessed on property used for nonrailway purposes or nonoperating purposes. Non-railway-use property, we call it.

Senator SHIPSTEAD. You are assessed in Minnesota under the gross-earnings tax?

Mr. EDWARDS. Yes.

Senator TRUMAN. The most valuable part of your road is in Minnesota, is it?

Mr. EDWARDS. That is right. The larger mileage is in Iowa, but I think the greater value is thought to be in Minnesota. The general offices are there, and the Cedar Lake shops.

Senator SHIPSTEAD. Can you give us the total of the taxes you pay in South Dakota and in Iowa?

Mr. EDWARDS. I cannot tell you.

Senator SHIPSTEAD. And in Illinois?

Mr. EDWARDS. I cannot tell you the amount of that without the records. Mr. Anderson, I think, covered the matter of taxes paid in those States in his evidence.

Senator SHIPSTEAD. What proportion of the value of the road do you consider to be in Minnesota?

Mr. EDWARDS. Probably upward of one-third or 40 percent.

Senator SHIPSTEAD. Forty percent?

Mr. EDWARDS. Very likely.

Senator TRUMAN. If the assessed valuation in Iowa is $2,761,000, it would be safe to estimate the assessed value in Minnesota at about $3,000,000?

Mr. EDWARDS. I should say that would be very conservative.

Senator TRUMAN. Making the total for the road of $10,000,000.

Senator SHIPSTEAD. For taxation purposes.

Mr. EDWARDS. That is right.

One of the Senators inquired about the volume of traffic moving intrastate in Iowa one-line in connection with the development by Mr. DeMar of the Iowa Railway Commission as to an increase in rates by two-line haul. We were unable within the time available for the use of the committee to assemble any data that would be sufficiently definite in character to be helpful. We have tried to but we cannot even approximate it in a way we would care to submit it.

Senator TRUMAN. I should like to ask if this road has been through any reorganizations previous to 1922 or 1923, whenever the receivership was originated?

Mr. EDWARDS. I think there was a reorganization or a consolidation as the result of a receivership proceeding in the district court of Hennepin County, Minn., a great many years back, out of which grew one of the earlier companies, but not in recent years—for a dozen or more prior to this receivership.

Senator TRUMAN. Had there been any promotion of bond issues sold to the public in the consolidation of the various parts of the road?

Mr. EDWARDS. I am not sufficiently informed as to its financial history, Senator, to answer that.

Senator TRUMAN. It has been testified here, if I remember correctly, that the Interstate Commerce Commission's valuation of the road was in the neighborhood of $40,000,000. It has been testified to here by several witnesses that its reorganization value at the present time is in the neighborhood of $17,000,000, but that there are outstanding against it, if I remember correctly, according to the testimony, $45,000,000 worth of bonds, and some $30,000,000 of unpaid interest. What I was trying to arrive at is how that bond issue capitalization was arrived at, and how the road became bonded for $45,000,000, if its value for rate making was in the neighborhood of $40,000,000. It certainly must have had a capitalization of stock also outstanding. It seems to me that apparently there has been some overextension or promotion or something going on to create a condition of this kind.

Mr. EDWARDS. I am sure the Senator's conclusion about that would be better than mine.

Senator TRUMAN. I do not see how this condition could arise.

Mr. EDWARDS. We have gotten together a history of the consolidations that make up the present railroad in receivership, which takes it back to about 1912. That is to say, companies which went into the present operated mileage.

Senator TRUMAN. I think that would be an excellent thing for the record. I think it should be put into the record if it is available in form so it can be put into the record.

Senator SHIPSTEAD. That was the last reorganization, in 1912?

Mr. EDWARDS. Yes.

Senator SHIPSTEAD. There have been some reorganizations and consolidations before?

Mr. EDWARDS. Before, in the early history of the railroad.

Senator SHIPSTEAD. From the late fifties up to the present time there were some 30 various companies that went altogether into the Minneapolis & St. Louis?

Mr. EDWARDS. Yes.

Senator SHIPSTEAD. The last reorganization was in 1912?

Mr. EDWARDS. I think that is right.

Senator SHIPSTEAD. Since that reorganization took place 22 million and some odd thousand dollars in interest on the funded debt has been paid?

Mr. EDWARDS. That is correct. From 1912 through to the time of receivership and through the year 1931, when the revenues fell off to less than $10,000,000, this railroad paid in interest and earned for interest and other fixed charges an average of $1,160,000 a year. Now, prior to receivership, it was attempting to pay interest on this funded debt of $45,000,000. It had, in fact, paid interest on that funded debt for 12 years and was not in default on any bond issue at the time it went into receivership. The interest payments average about $2,000,000 a year out of gross revenues that were less on the average for the 10 years prior to receivership than they were through 1931 after the receivership.

Senator TRUMAN. What I was trying to get at is this: It seems to me that $45,000,000 bond issue on a road whose valuation for rate-making purposes was $43,000,000 was a little bit large, especially together with the stock. There must have been a capital stock outstanding against it that was supposed to be the value of the road. What was it capitalized for in stock?

Mr. EDWARDS. As of June 30, 1912, the total capital structure was $64,487,000.

Senator TRUMAN. That included the bonds?

Mr. EDWARDS. That included the bonds and stock.

Senator TRUMAN. It was pretty well capitalized, was it not?

Mr. EDWARDS. As of December 31, 1935, the capital structure, common stock, $25,792,600, and its total funded debt, $49,123,000, making a total capital structure of $74,916,000. Less refunding and extension bonds in the treasury of $4,980,000, or a total capital structure of $69,936,390. That, however, includes, the balances on equipment trust obligations, some $600,000 or $700,000.

Senator TRUMAN. It is a physical impossibility for the road ever to think of paying out on a capitalization of that sort, is it not?

Mr. EDWARDS. I am sure, Senator, that nobody has any illusions about that. No bondholder or anyone on the property.

Senator SHIPSTEAD. It is quite generally understood that if it had had a fair, reasonable capitalization it would never have gone into receivership hands, would it?

Mr. EDWARDS. I think that is a very likely and fair assumption.

Senator SHIPSTEAD. And on this proposition for dismemberment and sale for $7,200,000 it is not possible for those who have invested their money in this capitalization to get any more out of it than the $7,200,000?

Mr. EDWARDS. I think those who have invested in the railroad on that proposal, if it were consummated, under the final decree would get for their investment something a little less than $2,000,000. That is all.

Senator SHIPSTEAD. The rest would go to pay what?

Mr. EDWARDS. The rest would go to pay, first, the receiver's certificates; then the balance on the preferred creditors' claims, the unpaid balance, if any, on receivership expenses and administration, and the Merriam Junction-Albert Lea mortgage, which is not in foreclosure and as to which they claim accrued interest will have to be paid. It is in default as to interest since 1932. That is that $950,000 mortgage.

Senator SHIPSTEAD. Do you think, then, that all this money invested will get out of this deal about $2,000,000?

Mr. EDWARDS. Less than $2,000,000.

Senator BENSON. To the bondholders?

Mr. EDWARDS. To the bondholders.

Senator SHIPSTEAD. It is the duty of the court to protect the interest of the bondholders so far as possible. I do not know whether it is proper to ask you that question or not.

Mr. EDWARDS. That is right, Senator. The final decree provides that when the property is finally offered for sale and sold, the court will exercise its retained jurisdiction over any proposed sale, and before confirming it will give all parties an opportunity to be heard and to object to any inequities, upon full notice of such hearing.

Senator SHIPSTEAD. But under this plan of sale and dismemberment it is proposed to sell a property which for taxation purposes is valued at about $10,000,000, and for scrap value at about $17,000,000, and with an estimated earning power that would justify a capitalization anywhere from $10,000,000 to $15,000,000—if that could be done the stockholders or the bondholders would have that much advantage—it would have the difference between what it can earn and what it would sell for. If it can earn on a capital of $15,000,000 the difference would accrue to the bondholders under the process of reorganization that could be affected under 77 (b)?

Mr. EDWARDS. That is right.

Senator SHIPSTEAD. And unless that can or will be arranged for, all the bondholders can expect to get is less than $2,000,000, and the five associated railways will get this property?

Mr. EDWARDS. That is right; that is if reorganization goes through in receivership, as the final decree now sets it up.

Senator SHIPSTEAD. And under this plan?

Mr. EDWARDS. Yes.

Senator SHIPSTEAD. It will get clear title to this property for the sum of $7,200,000?

Mr. EDWARDS. That is right, and to the equipment, material, and supplies, cash and bills receivable, and everything the railroad owns or did own.

Senator BENSON. Mr. Edwards, you testified that the Government has a certain interest or equity in this railroad. Just what liens or what mortgages are prior to the Government's claim—or, it would be easier, probably to state—just where does the Government's claim stand? Where is it?

Mr. EDWARDS. Its interest is in $4,000,000 of the refunding and extension issue, of which I think there are outstanding $8,895,000. The coverage of that mortgage, as to what is prior lien and what is a subordinate lien in respect of other mortgages I cannot say. I would have to have an analysis of the mortgage record made to know just what that mortgage covers.

Senator BENSON. Let me ask you this question then. If the railroad is sold under the present application and plan for $7,200,000, will the Government recover anything on their claim of $4,000,000, and, if so, approximately how much?

Mr. EDWARDS. It would recover a very small amount. Probably not over $3 or $4 a thousand.

Senator BENSON. If the railroad could be reorganized and be retained in the control of the present owners, and by "the present owners" I mean the bondholders probably, and it would eventually work out on the basis of the value, we will say, of $15,000,000, how much would the Government then recover on its claim?

Mr. EDWARDS. If the net value to the bondholders is less than $2,000,000 now, on the basis of a $7,200,000 valuation, every dollar of increase in values on the basis of capitalized earnings or otherwise accrues to the benefit of all the bondholders. Now, as to the proportion of accrual to the refunding and extension bonds, I cannot say, but its fractional interest would be the same in the increase. Obviously, if the bonds are made $10,000,000 more valuable, their interest will be five times as great as it would be on a $2,000,000 valuation.

Senator BENSON. You just heard Mr. Wright testify as to the amount of money that has been expended for legal expenses during the receivership. He estimated it at $600,000. Do you think it would be more or less than that?

Mr. EDWARDS. My impression is that it is $800,000 that has been allowed and paid. He may have had a break-down of it in his mind. I think, as I heard your question and his answer—you asked about counsel fees specifically, and I think in the figure of $800,000, which is administration expenses, are included allowances to trustees as well as to their counsel, and to the receiver's counsel.

Senator BENSON. Would the $800,000 figure that you have used include the expense of the receiver?

Mr. EDWARDS. I think I may answer that this way, that that $800,000 represents allowances only. In the administration of the property in receivership during the early stages of it, a great deal of additional work was required because of the receivership, which is not represented by mere allowances, I assume. For instance, in the accounting department and other departments. The receivership itself causes an increase in forces to some extent.

Senator BENSON. Would the $800,000 include the salary of the receiver?

Mr. EDWARDS. No; that does not include the salary of the receiver.

Senator BENSON. That is all.

Senator SHIPSTEAD. Receivership expenses are in addition to the ordinary expenses, are they not?

Mr. EDWARDS. Well, they are in the expenses.

Senator SHIPSTEAD. Yes; they are in the expenses of the road, but if the road was not in receivership it would save considerable on the receivership expenses.

Mr. EDWARDS. Oh, yes.

Senator SHIPSTEAD. If a method could be found to reorganize under 77 (b) and keep the road going and do justice to the bondholders, the receivership would not be necessary, and there would be a saving to the road, would there not?

Mr. EDWARDS. Yes; although, Senator, the current expense on account of the receivership operation is not now large since the litigation, in the main, has terminated. I do not know just what it is currently.

Senator SHIPSTEAD. It would not be so heavy in the future as it has been in the past?

Mr. EDWARDS. No; I think not.

Senator SHIPSTEAD. How many claims were filed that had to be litigated?

Mr. EDWARDS. There were 4,501 claims filed in the receivership. Besides the reservation as to their status, there is another angle about the purchaser. He is required to assume the payment of pension allowances. There is no pension system on the railroad, but by reason of a few—very few of them—that had occurred prior to receivership, and the number that have occurred since receivership, the railroad paid out last year approximately $30,000 on pensions to retired employees, old employees, disabled employees. Just how that is to be cared for and provided for in connection with this plan has not been quite clearly shown. It is an element that any single purchaser would have to create some assurance of, according to the final decree.

Senator BENSON. Mr. Edwards, using the figure that you have used, $800,000, for attorneys' fees during the period of the receivership, that would figure about $75,000 or $80,000 a year in attorneys' fees, would it not? Approximately?

Mr. EDWARDS. I think so; yes.

Senator BENSON. In addition to that it also paid the salary of the receiver? Is that correct?

Mr. EDWARDS. That is correct.

Senator MURPHY. Mr. Edwards, when John C. DeMar, the counsel for the Iowa Railway Commission, was on the witness stand the other day, he testified that the dismemberment of the M. & St. L. would result in higher shipping charges within the State, due to abandonment of lines and the taking over of other lines by different railroads, and the imposition of a joint rate where now a single rate obtains. And that one or two or three lines thereafter would carry freight which was now being carried by a single line. I asked him if there were any means of determining what the resultant effect in higher cost to Iowa shippers would be from that, and the reply was that it was impossible then to give the figures or to determine the scope of the task involved to get the figures. I wonder if, as the result of that inquiry of mine, you have been able to make any headway in getting any information.

Mr. EDWARDS. We could not, Senator, in amount of traffic or money in the time that has been available. We took that up with the general freight agent and the head of the traffic department that very evening, and tried to have worked out some statistics that would be approximate enough to warrant our offering them, but we just have not obtained them and cannot get them within this time. If we had some further time to assemble that data, we would be very glad to get it and submit it for the record if you wish.

Senator MURPHY. Have you any idea how long a time it would take and how much labor it would involve to ascertain the amount?

Mr. EDWARDS. I cannot say. It would be quite a task to assemble that data on a breakdown reduced to volume and money.

Senator MURPHY. Would you say it would be a considerable amount—an amount that would justify the Iowa Railway Commission in its present position as intervenor here in opposition to this proposed dismemberment? Would you say that it is a considerable amount?

Mr. EDWARDS. I would say that it is a substantial amount.

Senator MURPHY. That would justify the commission in the interest of the State to oppose the dismemberment?

Mr. EDWARDS. Yes.

Senator MURPHY. On the basis of that alone, if no other?

Mr. EDWARDS. I think it is. At the time the dismemberment was proposed, several years ago, that same objection was offered then, so far as the agricultural community was concerned particularly, because intrastate grain movements would have had a substantial increase and a considerable effect on farming, which was having plenty of difficulties without it. And as I recall it, that was offered by the receiver himself on the request of the court for advice on the dismemberment which was proposed at the time they applied for a separate sale.

Senator MURPHY. Of all the States served by the M. & St. L., is this condition peculiar to Iowa, by reason of its joint-rate statute?

Mr. EDWARDS. I cannot say that. I am not sufficiently informed as a rate man to know what the set-up is as to other States.

Senator MURPHY. But it is true of Iowa?

Mr. EDWARDS. Yes.

Senator MURPHY. That is all.

Senator SHIPSTEAD. Mr. Edwards, I should like to ask you a question, in view of the fact that I think you are now appearing for the last time, or anyone else who has been subpenaed to come here, as officers of the court to come before the committee and give information to the committee.

Mr. EDWARDS. So far as I know.

Senator SHIPSTEAD. There have been some remarks here about the impropriety of asking an officer of the court, who came here under instructions of the court, to give information to this committee.

Mr. EDWARDS. That is right.

Senator SHIPSTEAD. Do you feel that this committee has in any way tried to impose itself or to trespass on the province of the court in asking the questions which have been asked you?

Mr. EDWARDS. I do not feel that in the least.

Senator SHIPSTEAD. And as an attorney familiar with those instructions of the court and the duties of the court, you do not feel that we have trespassed in any way or overridden the instructions of

the court in asking you to answer any question that we have no right to ask you?

Mr. EDWARDS. Not at all, Senator. The only time that that occurred I thought that the committee was getting just a little bit afield when it sought to have the general manager express an opinion about a matter on which he clearly was not qualified to express an opinion.

Senator SHIPSTEAD. I agree with you.

Mr. EDWARDS. And I hesitated for a long time to interfere. But other than that incident, I think we have been well within the instructions of the court, and for myself I have been appreciative of the very courteous treatment we have had at the hands of the committee, and if there is anything further we can furnish, we are very happy to furnish it.

Senator SHIPSTEAD. And the court would be very happy to have you do so?

Mr. EDWARDS. I am sure the court would have no objection at all and would be glad to have us furnish you any facts, and would expect the witnesses under oath to testify as to any opinions they might have on matters that they are qualified to express opinions about.

Senator SHIPSTEAD. Thank you.

(Thereupon the witness left the stand.)

Senator SHIPSTEAD. Mr. Oliver.

TESTIMONY OF E. L. OLIVER, CINCINNATI, OHIO, RESEARCH DIRECTOR OF THE BROTHERHOOD OF RAILWAY AND STEAMSHIP CLERKS

(The witness was duly sworn by the chairman of the subcommittee.)

Senator SHIPSTEAD. Give your name and your address.

Mr. OLIVER. E. L. Oliver, Cincinnati, Ohio.

Senator SHIPSTEAD. And your business? Whom do you represent?

Mr. OLIVER. I am the research director of the Brotherhood of Railway and Steamship Clerks. I represent here not only my own organization but all of the national railway labor unions.

Senator SHIPSTEAD. How many are there?

Mr. OLIVER. There are 21 of them. They all represent M. & St. L. employees. Each of them has a contract with the management of that railway covering the wages and working conditions of the Minneapolis & St. Louis employees.

Senator SHIPSTEAD. Will you state for the committee your duties with the Brotherhood of Railway Clerks? Will you just state what they are?

Mr. OLIVER. In general, my duties are to make the necessary studies and secure the necessary information for carrying on the various activities of our organization, and in some instances of the 21 organizations to represent them in various kinds of hearings, especially arbitration hearings, hearings before the Interstate Commerce Commission, hearings before congressional committees, and to provide generally the facts necessary for determination of organization policy or carrying on organization work.

Senator SHIPSTEAD. Will you tell the committee what training you have had for that kind of work and employment?

Mr. OLIVER. I am a graduate of the University of Minnesota, and have had about the equivalent of a year of graduate work at the University of Minnesota.

Senator SHIPSTEAD. In what department?

Mr. OLIVER. Most of my work was in economics. That is, I majored in economics. Subsequently I taught for a year in the University of Pennsylvania in the Wharton School of Commerce and Finance, and for 1 year in the Brookwood College, of Cato, N. Y.

I have had four appointments to Government service, three of them as statistician or examiner with the Federal Trade Commission, and one with the Textile Work Assignment Board. In each of those appointments my work was largely statistical and economic investigations.

Senator SHIPSTEAD. In your professional capacity?

Mr. OLIVER. Yes, sir. In 1921, while at the University of Pennsylvania, I taught in an evening school organized by the labor organizations of the city, and from that connection began to work with the labor organizations in other capacities.

Since 1922, with the exception of two Government appointments, my work has been exclusively with labor organizations. Much of that work has been with labor organizations in other industries, but, beginning in 1922, I have had intermittent connection with the railway-labor organizations.

In 1922 I handled the national wage arbitration before the Railroad Labor Board for the Brotherhood of Railway Clerks in the spring, and in the fall another for the same organization. I had represented other organizations before the Board, both in wage and rules arbitrations.

Between 1922 and 1926, while I worked principally with other labor organizations, I maintained connections with the Brotherhood of Railway Clerks, and from 1926 on—that is, from December 1926 on—I have been principally engaged in work for the Brotherhood of Railway Clerks and the other railway labor unions. In the years 1927, 1928, and 1929 that largely consisted of handling of wage and rules arbitrations.

Senator SHIPSTEAD. I think that is sufficient. Are you familiar with the proposed plan for the dismemberment and sale of the Minneapolis & St. Louis Railroad?

Mr. OLIVER. I am; yes, sir.

Senator SHIPSTEAD. Are you familiar with the terms of the application?

Mr. OLIVER. Yes, sir.

Senator SHIPSTEAD. And what other information do you have?

Mr. OLIVER. Well, in connection with the proposal, I have made a study of the effect of carrying out this application upon the Minneapolis & St. Louis Railroad employees and upon the communities in which they live.

Senator SHIPSTEAD. From your knowledge and from your study of it, and from what you know of it, what, in your opinion, will be its effect upon the road and upon the communities and the employees?

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Mr. OLIVER. The employees in the service of the railway total about 3,200, as nearly as can be determined. Of course, that fluctuates from day to day or week to week, but it is approximately 3,200. Of those employees, a very large number would lose employment entirely if the proposal were to be carried out. Some of these employees, notably shop employees and clerical employees—general office employees in particular—would have absolutely no employment left. Some classes, such as train-service men, would have some employment left.

Senator SHIPSTEAD. What would they do?

Mr. OLIVER. Some of the line is to be continued under the management of the railroads to take care of those segments. Over those lines in some instances they expect to run service that is somewhat less than now maintained and in other cases substantially what is now maintained. And in one case one of the railways plans apparently to increase the number of trains running over one section of the line. The effect of those changes in operating arrangements will be substantially to reduce the number of employees over the greater part of the line. It is probable that of the 3,200 employees now in the service of the railroad, as nearly as can be calculated from the plans advanced, not fewer than 2,600 would lose their employment entirely. I think that is a conservative estimate. It is conservative; that is, that in a more careful study, if better information were available, it would probably reveal that even more would be entirely released.

Senator SHIPSTEAD. What information is available to you on which to base that estimate?

Mr. OLIVER. The nearest information available is, on the one hand, the number of employees in the various communities and on the various facilities, and, on the other, the estimates made by the Associated Railway representatives of the numbers they would use. I have a specific instance that would illustrate how the figures were arrived at, or, rather, how the estimate was arrived at.

The Chicago, Burlington & Quincy proposes as a part of its plan to take over the section of the line between Oskaloosa and Peoria. On that section of the line at the present time there are employed 102 engine-service men. Of these men, 67 are employed full time on regular assignments and there are 35 who work somewhat more than half time, on the average, so that the total of 102 employees are actually in engine service in this section of the railroad. The plans outlined by the representatives of the Chicago, Burlington & Quincy Railway indicates that over that section they will have 15 men working regularly, and there may be between 5 and 10 part-time men. The total number employed will almost certainly be not more than 25, to compare with the 102 now in service on that section of the railroad.

That is one of the sections to be continued in operation, and it is one of the types of service or classes of service in which the reduction is not to be heavy.

The general offices in Minneapolis, which employ approximately 300 people, will be completely wiped out. There will be no opportunity for the employment of any of them in the service of any of the other railroads with the possible exception of one man. One of the representatives of the other railroads said that he might take an M. & St. L. employee into his general office in order to have someone there familiar with this railroad or with the section of the railroad which that carrier proposes to take over.

In the Minneapolis & St. Louis shops in Minneapolis virtually the entire force will be thrown out of work, because only the equipment to be operated by the Associated Railways in the terminal itself will be handled in those shops. That will be a few switch engines. And out of approximately 1,000 persons now employed in the city of Minneapolis, certainly fewer than 100 will be continued in the employment of the railways taking over the Minneapolis & St. Louis Railroad.

Then there are large sections of the road to be abandoned entirely, and of course all of the employees on those sections will be completely displaced.

With respect to one section, that which runs between Albia and Mason City, the Chicago, Milwaukee & St. Paul Railroad indicated that it would divert certain of its traffic from the present route between Kansas City and Minneapolis to the shorter route which will run over what is now the Minneapolis & St. Louis line. As the result of that diversion it is at least possible that there will be more trains over that Minneapolis & St. Louis line than there are now, but that will not increase employment. The contrary effect is probably to be expected, because the present route of the Milwaukee is 154 miles longer than the route which will be followed if the change is to be made.

In the shortening of the route and the diversion of the trains, there will be fewer employees needed than are now required by the Milwaukee over its longer route.

They will retain their employment rights over that work. They will have the right, and my experience with these organizations tells me they will exercise the right, to follow that employment. So that the men to be used in the operation of these Milwaukee trains over the Minneapolis & St. Louis line will be the present Milwaukee employees and not those now employed by the Minneapolis & St. Louis, excepting insofar as the Minneapolis & St. Louis traffic still remains on that section of the route.

The net effect will be to reduce employment, probably, over the present Milwaukee line as well as substantially to reduce employment over that section of the Minneapolis & St. Louis which is to be operated by the Milwaukee Railroad.

In total, I believe it is a conservative estimate and understatement to say that between 2,500 and 2,700 of these 3,200 employees will be thrown out of work entirely.

In addition, there is a hardship and a type of loss to be inflicted on the employees still remaining in the service. The Minneapolis & St. Louis has a relatively large seniority district embracing the lines in Minnesota and it also has a relatively large seniority district on other sections of its line. As a result of this dismemberment, the employees who still will have opportunities of employment will naturally have to go to whatever point they are offered that employment. It will probably require a considerable proportion of those left in the service to move from their present homes to the locations where they will be able to secure employment under the proposal. In that removal it is to be expected that employees retaining seniority

rights will be the oldest in service and, in general, that means they will be employees who own their own homes, who have dependents, who are put to considerable loss in making such a move.

As I say, it is impossible to determine exactly which men, which individuals, will be under that necessity, but that a considerable number will suffer loss out of that 500 who may remain in the service is, I think, undisputable.

Senator SHIPSTEAD. By the way, the applicants under this application have testified before the I. C. C. in the hearing about what they propose to do; and is it testified, so far as you know, and is it in the record, what their estimate is of the amount or number of persons who will be unemployed if this application is granted?

Mr. OLIVER. No estimates have been made of total numbers; no, sir.

Senator SHIPSTEAD. Did they cover that issue at all?

Mr. OLIVER. Yes, sir; upon cross-examination, for example, with respect to the general office.

Senator SHIPSTEAD. The record will show what that is.

Mr. OLIVER. Yes, sir.

Senator SHIPSTEAD. Just complete your statement.

Mr. OLIVER. Yes, sir.

I have secured from the officials of the railway a statement of the number of employees in the principal towns along the line and the amount of compensation paid them. The figures I have are for the first 6 months of 1935, about a year ago, and, with conditions as they were, these figures are probably very nearly the number of men in the service today at these various points.

Senator MURPHY. You mean the company officials can sit down and make up a list of the number of employees that are to be dismissed?

Mr. OLIVER. It is not possible to do that, Senator. It is not possible to do that because the railroad taking over the Minneapolis & St. Louis cannot give exact estimates. In general, their plan is to use as many as possible and only with respect to a few specific facilities, such as a general office and certain shops, can it be said that the force will be wiped out entirely.

The railroad has in St. Paul 21 employees, who were paid for the first 6 months of 1935, $18,281.

In Minneapolis, 1,024 employees. Their compensation for the first 6 months of 1935 was $795,000.

In the year 1934 the Minneapolis Railroad paid $1,570,000 compensation.

And in the city of Albert Lea the number of employees in the first 6 months of 1935 was 108, and the compensation paid for the entire year 1934 was $155,000.

At Fort Dodge, Iowa, 152 employees in the first 6 months of 1935, and in 1934 compensation of $245,000 paid.

In the city of Des Moines, 49 employees, and in 1934 $68,000 paid.

In the city of Watertown, S. Dak., 74 employees in 1935. There had been 84 in 1934, and in that year a total compensation of $118,000 was paid.

In Mason City, Iowa, there were 56 employees, and in 1934, $79,000 compensation was paid them.

In Marshalltown, Iowa, there were 371 employees, and in 1934 a total compensation had been paid the Minneapolis & St. Louis employees there of $467,000.

In Oskaloosa, Iowa, there were 221 employees in the first 6 months of 1935, and in 1934 there had been $355,000 compensation paid.

In Monmouth, Ill., there were 135 employees in 1935. Compensation paid in Monmouth in 1934, the entire year, had been $198,000.

In the Peoria-Bartlett area, in Illinois, there were 48 employees for the first half of 1935, and in 1934 the employees in that district had been paid $124,000.

I think it should be said that the figures for the record for the first half of the year would be somewhat below those for the latter half of the year. For that reason the compensation is for the full year.

Senator SHIPSTEAD. Have you made totals of those?

Mr. OLIVER. I beg your pardon?

Senator SHIPSTEAD. Have you made totals of those?

Mr. OLIVER. I have a total for the entire line; yes, sir.

Senator SHIPSTEAD. You have the total number of employees?

Mr. OLIVER. Yes, sir. The total number of employees in the last full year which was available at the time these figures were compiled, in 1934, the amount of compensation paid, as reported to the Interstate Commerce Commission, was $4,454,000. The number of employees was 3,200 exactly in the year 1934.

Now, the compensation since that time has increased with the restoration of the wage reduction then in effect.

Senator SHIPSTEAD. So that this number would leave, according to your figures, only 600 employees?

Mr. OLIVER. Certainly not more than that, I should say, Senator. I believe that is a very conservative estimate. In the study of the effects of this proposal upon the employees, a questionnaire was distributed over the line to determine exactly what was the situation of the men and women to be affected. In addition, a detailed study was made in several of the communities to be most directly affected.

The community study was made in somewhat more detail than the general study.

The questionnaire distributed over the railroad was returned by 1,293 employees. The average seniority of those employees and, incidentally, I believe that sample is a very large and certainly a representative one—the seniority of those employees was, on the average, 19.4 years. That is to say, these employees had been working for the Minneapolis & St. Louis Railroad 19.4 years, on the average. Of the 1,293 employees, 1,044 were married. The average number of dependents per employee was three and, of those three, two, on the average, were of school age. Six hundred and forty-four employees reported owning homes. The average value of the homes they owned was $3,589. Of that number of 644 owning homes, 322 still had incumbrances, mortgages of one kind or another. They paid, during the last year, average taxes of $78.

Senator SHIPSTEAD. Apiece?

Mr. OLIVER. Apiece; yes, sir, on their homes.

One thousand two hundred and seventy-five of these 1,293 employees reported they had no other means of livelihood.

Senator SHIPSTEAD. What is the total of the taxes they paid?

Mr. OLIVER. The total taxes paid were $40,797, an average of $78 per employee, per employee paying taxes. There were 1,293 who reported. Of them, 644 reported owning homes.

Senator SHIPSTEAD. Yes. And how many reported they had no other means of livelihood?

Mr. OLIVER. One thousand two hundred and seventy-five out of 1,293 had no other means of livelihood than their employment with the Minneapolis & St. Louis Railroad. That study was followed up by a detailed one in four or five principal communities.

In Monmouth, Ill., Oskaloosa, Iowa, Albert Lea, Minn., Watertown, S. Dak., and at a few scattered points along the railroad lines from which questionnaires were received, although they were not actually solicited in this particular study.

This study was made by sending to union officials in these towns detailed questionnaires with instructions as to how they should be filled out. It included not only a coverage of the employees but also a study to be based on the business conditions and the tax situation in the individual communities.

Of the employees in the city of Monmouth, Ill., replies were received from 63. Of these, one failed to report upon his age. The average age of the 62 employees who reported their age was 50 years. The average service of these employees with the Minneapolis & St. Paul Railroad was 23 years, that is to say, the average employee there is 50 years old and has been working for the railroad for 23 years.

The wage distribution of those employees indicates that the predominant rate is between $5.50 and $6 per day. Although there is a considerable number, 11, of the total, receiving between $7.50 and $8 per day, only 3 of the employees reporting from Monmouth, Ill., had any other income in addition to wages. And the total amount of that income for those three men was $63.

Monmouth is one of the points where it is indicated that very little employment will be left after and if the proposed change is made. Of the employees reporting from Monmouth, three only had any other trade besides that which they were now following. Three of them had savings, and the total amount of savings was $3,200, an average of $1,066 for the employees who had savings. Sixty reported no savings. There was a total of $12,000 of property owned by these employees other than their homes, but there were only 9 of the 63 who had any such property.

Of the 63 employees reporting, 32 owned their own homes and 16 of these have paid for their homes entirely. Sixteen are still making payments. The average monthly payment of those still making payments on their homes is $14.27.

The estimates which these employees put on their homes—and they were asked to be as fair as possible in their estimates—those who were still making payments estimated $48,000, an average of approximately $3,000 per home. They estimate that if a forced sale of this property would be made now, it would bring not more than $19,600 in total. The amount of money which has been paid so far by these employees upon their homes, which, as I say, they valued at $48,000, totals $38,800.

Of the 63 employees reporting, 28 had made contributions to charity in the city of Monmouth last year. Those contributions totaled $917.50. Ten of the employees reporting were actually giving assistance to other Minneapolis & St. Louis employees now unemployed.

Senator BENSON. I would like to have incorporated in the record a resolution adopted by the Order of Railroad Telegraphers in convention assembled at New Orleans, La., on May 12.

Senator SHIPSTEAD. It may be incorporated in the record.

(The resolution of the convention of the Order of Railroad Telegraphers is as follows:)

RESOLUTION UNANIMOUSLY ADOPTED BY 500 DELEGATES REPRESENTING 50,000 MEMBERS OF THE ORDER OF RAILROAD TELEGRAPHERS IN CONVENTION ASSEMBLED AT NEW ORLANS, LA., ON TUESDAY, MAY 12, 1936

Whereas the proposed dismemberment of the Minneapolis & St. Louis Railroad and the abandonment of approximately 500 miles of its line, as requested by the Associated Railways, composed of the C. B. & Q., C. M. & St. P., C. R. I. & P., C. & N. W., Illinois Central, Great Northern, and Soo Line, in Interstate Commerce Commission Finance Docket 10947, will result in the loss of employment to approximately 2,000 employees and leave numerous communities without rail service; and

Whereas the Minneapolis & St. Louis Railroad was valued by the Interstate Commerce Commission December 31, 1931, at $52,711,097, that it operates approximately 1,575 miles within the four States of Iowa, Minnesota, Illinois, and South Dakota; and

Whereas the reorganization committee of the M. & St. L. R. R. were assured by Jesse Jones, Chairman of the Reconstruction Finance Corporation, that their request for a loan of 4½ million dollars to reorganize the railroad would be entertained, although later on rescinding that assurance, pending the outcome of the present plan to dismember and abandon the line as contained in Interstate Commerce Commisison Finance Docket 10947, and called the heads of the various railroads to Washington in October of 1934 to secure their cooperation in the dismemberment plan; and

Whereas the Reconstruction Finance Corporation have agreed to loan the Associated Railways $7,200,000 with which to purchase the M. & St. L. R. R. at public auction, the maximum amount to be paid, while the Minneapolis terminals and the first division of 119 miles south of Minneapolis had a tentative valuation placed upon it a number of years ago by the Interstate Commerce Commission of $8,577,725, and which is without consideration of the dire results which such a transaction will cause to thousands of employees and their dependents and the numerous communities which will be left without rail service; and

Whereas the above-mentioned railways included in the Associated group already owe the Reconstruction Finance Corporation approximately $90,000,000, while the M. & St. L. Railroad is not indebted to the Reconstruction Finance Corporation and under the present management the railroad is doing a good business and showing large increases in carloads handled and financial revenues received compared with the previous year, in addition to paying off a large amount of vouchers held over, purchase of new ties, absorbing the 10-percent wage restoration, discounting their bills with a substantial balance left over after paying off all of their operating expenses; and

Whereas the congressional committee at Washington, the States of Iowa, Minnesota, Illinois, and South Dakota represented by their railroad commissions, large bond-holding interests, the communities along the line of the M. & St. L., as well as the employees of the railroad, are waging a bitter opposition against the wrecking of this valuable railroad property, and the fact is recognized if this plan should succeed, it would be used as a key case to apply the same high-powered financial methods of extermination to other railroad properties; and

Whereas we are reliably informed that the majority of the railroads incorporated in the Associated group are not interested in the success of the plan, but owing to their heavy financial obligations to the Reconstruction Finance Corporation have not been in a position to withdraw from the plan as the Chicago Great Western Railroad did, and later filed their petition to oppose the plan: Therefore be it

Resolved, That the international organization of the Order of Railroad Telegraphers, in convention assembled, go on record as being unalterably opposed to the methods being pursued in the furthering of this plan of dismemberment

and abandonment of the Minneapolis & St. Louis Railroad and call upon the Reconstruction Finance Corporation to withdraw their loan to the Associated Railways and reconsider favorably the smaller loan asked by the reorganization committee of the M. & St. L. R. R. so that they may reorganize their property and keep the railroad operating intact and giving service to the many communities as it has done for the past half century, as well as employment to its 3,500 employees, and in case that the Reconstruction Finance Corporation refuse to so act that the Interstate Commerce Commission decline the petition submitted by the Associated Railways under Interstate Commerce Commission Finance Docket 10947 as not being in conformity with the public convenience and necessity: And be it further

Resolved, That a copy of this resolution be forwarded to Franklin D. Roosevelt, President of the United States, the chairman of the Reconstruction Finance Corporation, and the members of the Interstate Commerce Commission, at Washington, D. C.

G. E. CHANCE,
F. G. MUSGRAVE,
L. L. WILLIAMS,
W. H. COBURN,
J. T. DOWD,
W. I. CHRISTOPHER,
W. C. THOMPSON,

Committee on Resolutions, Grand Division, Order Railroad Telegraphers.

Senator SHIPSTEAD. How long will it take you to finish your testimony, Mr. Oliver?

Mr. OLIVER. A long time, Senator.

Senator SHIPSTEAD. We will adjourn until 10 o'clock tomorrow morning.

(Thereupon, at 12:15 p. m., an adjournment was taken until tomorrow, Thursday, May 21, 1936, at 10 a. m.)

PROPOSED SALE OF MINNEAPOLIS & ST. LOUIS RAILROAD

THURSDAY, MAY 21, 1936

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON INTERSTATE COMMERCE,
Washington, D. C.

The subcommittee met at 10 a. m., pursuant to adjournment on yesterday, in room 357, Senate Office Building, Senator Henrik Shipstead (chairman of the subcommittee) presiding.

Present: Senators Shipstead (chairman of the subcommittee), Truman, and Benson.

Also present: Senators Bulow and Murphy.

Senator SHIPSTEAD. Mr. Roosevelt, will you take the stand?

TESTIMONY OF PHILIP J. ROOSEVELT, OYSTER BAY, LONG ISLAND, N. Y., GENERAL PARTNER OF THE FIRM OF ROOSEVELT & SON, NEW YORK, CHAIRMAN OF THE SUBCOMMITTEE FOR A REORGANIZATION OF THE MINNEAPOLIS & ST. LOUIS SYSTEM

(The witness was duly sworn by the chairman of the subcommittee.)

Senator SHIPSTEAD. Will you state your name, your address, and your occupation, Mr. Roosevelt?

Mr. ROOSEVELT. Philip J. Roosevelt; address, Oyster Bay, Long Island, N. Y.; occupation, general partner of the firm of Roosevelt & Son, New York. The business of the firm of Roosevelt & Son is acting as a trustee and fiduciary agent.

In that connection I might say that I have been asked to serve as chairman of a subcommittee in connection with the reorganization of the Minneapolis & St. Louis Railroad. Myself, personally, and clients are holders of very substantial amounts of bonds of this property. There are seven issues of defaulted bonds on the property, each of which has its own protective committee. The subcommittee consists of the chairmen of these various seven committees. I am not a member of any of those seven committees representing any individual bond but have been asked to serve as chairman of the reorganization committee by those seven gentlemen who are the chairmen of those seven committees.

Senator SHIPSTEAD. Are you familiar with this application made by the so-called Associated Railways?

Mr. ROOSEVELT. I am. I have a copy of it here. Interstate Commerce Commission Finance Docket 10947, you mean, sir?

Senator SHIPSTEAD. Yes.

Mr. ROOSEVELT. I am.

Senator SHIPSTEAD. And you are familiar with the position of the bondholders and the investors of this road?

Mr. ROOSEVELT. Yes.

Senator SHIPSTEAD. We should like to have your opinion and any statement you care to make with reference to this application, or if you have any information that would be of value to the committee we would be very glad to have it, and state it in your own words.

Mr. ROOSEVELT. With the committee's permission I should like to say I received a subpena at 2:30 in the afternoon day before yesterday, and this data is, as a consequence, rather hastily prepared, but with your permission I should like to make a statement which I have tried to draw up, so I can put our position before you in an orderly way. If I had had more time, the statement would be shorter, but when you do not have much time you write a little too much, I am afraid. With that explanation I will proceed.

In order to consider whether the Reconstruction Finance Corporation's plan for the dismemberment of the Minneapolis & St. Louis system is in the public interest, I think it is necessary to consider some of the reasons why the road came to get into its present predicament as well as the consequences to the community served, to labor and to the security holders if the dismemberment plan is finally consummated. I think it is only fair to point out that the Government of the United States is not without responsibility for the predicament of the road. I would not deny or in any way attempt to minimize or condone such financial practice as may have led to its overcapitalization. My only point is that I believe the road has rendered and can render in the future a real economic service to the country, and if the road can render such service capital invested in it is entitled to some return.

The first fact that I should like to point out is that in 1916, and I pick 1916 because the "test period" before Government control covered the years 1915, 1916, and 1917, and 1916 is the middle of those years—I did not have time to take 1915, 1916, and 1917 and average them and work it out for all three—out of every dollar of gross which the road earned there was about 20 cents available for return on capital and 37 cents was paid to labor. On January 1, 1917, the Adamson Act became effective and this had the effect of increasing the number of cents out of every dollar of gross that went to labor and consequently decreasing the number of cents out of every dollar that was left for capital. Then on July 20, 1930, the United States Labor Board awarded wage increases aggregating over $625,000,000 a year for all the first-class railroads of the United States and the Minneapolis & St. Louis had to pay its share.

Net earnings are nothing but the difference between the gross receipts on one side and the expenses on the other. The gross receipts of a railroad are the product of pasesnger miles times the rate charges, plus ton-miles of freight times the rate charged for hauling it. In 1925, in a case called *Ex parte 87*, "Revenues in Western District" it was pointed out to the Interstate Commerce Commission that the territory north and east of the Missouri River was the lowest rated territory in the United States. At that time it was shown that five roads whose mileage was almost wholly in the territory in question, having an average haul of 199 miles, received

1.0694 cents per ton-mile of freight, while 53 other western roads, comprising substantially the rest of the western district, were paid 1.221 cents and their average haul was 231 miles.

The other roads in the western district on that computation got about 14 percent higher rates than were charged at that time in what was referred to as western trunk line territory, by which I mean the territory north and east of the Missouri River. It had been variously defined in various cases, and so I insert that.

Commenting on this discrepancy, on page 29 of its decision, the Interstate Commerce Commission said:

> A study of the above table and of other evidence of record tends to show that rates in western trunk line territory, generally, are on a materially lower level than rates in other sections of western territory.

At that time section 15A, of the Transportation Act, was in force and directed the Commission—

> to initiate, modify, establish, or adjust rates so that carriers may earn a fair return.

The Commission initiated nothing, denied applications for increases, and so forth. About this same time the Chicago, Milwaukee & St. Paul Railway was in the hands of a receiver and a special committee of the Interstate Commerce Commission investigated that receivership.

The most important part of the St. Paul Railway lies in this territory north and west of the Missouri River, and in investigating the causes for the bankruptcy of the old St. Paul the Interstate Commerce Commission, in an opinion no. 17021, decided January 4, 1928, said:

> In the northwestern region and in western trunk-line territory the revenues of certain of the important carriers had not yielded 5.75 percent upon any rate bases that can reasonably be adopted in advance of a final determination of present value for rate-making purposes.

They further found—

> that the least favorable conditions in the district so far as carriers' revenues are concerned appeared to exist in western trunk-line territory—

And they further found that—

> the record tended to show that the rates in western trunk-line territory, generally, were on a materially lower level than rates in other sections of western territory.

In summarizing the results of their investigation the Commission made the following observation.

It is a very peculiar one to me, and I wish somebody could explain it to me:

> *The effect of the freight-rate structure on the situation.*—The law with respect to the regulation of freight rates is, in our opinion, ample and adequate for the protection of both shippers and carriers. Whether the Commission has administered that law wisely and justly others must decide.

I do not know who the "others" referred to may have been, but I do feel that just as the Congress and the Chief Executive have some responsibility for having laid the burden of the Adamson Act on the Minneapolis & St. Louis, just as the Government, throught the United States Labor Board, has some responsibility for the wage award of July 20, 1920, so also the Interstate Commerce Commission, another agency of the United States Government, was not without responsi-

bility for the inadequate rate structure in western trunk-line territory that prevailed at the time the Minneapolis & St. Louis went into the hands of a receiver and which has prevailed to a large extent ever since. But there is a further responsibility on the shoulders of another Government agency for the protracted receivership of this property. During the era of prosperity—I prefer to call it the era of beautiful nonsense—between 1927 and 1929 I have no hesitation in saying that the road could have been reorganized if it had not been for the peculiar and arbitrary position taken by counsel for the Treasury Department and by counsel in the office of the Attorney General of the United States. During the war and shortly thereafter the Minneapolis & St. Louis road borrowed from the Director General of Railroads and the United States Government about $2,000,000. This loan was secured by collateral in the form of refunding and extension mortgage bonds. The railroad was about to be reorganized when the Attorney General took the position that the Government claim was a preferred claim, coming ahead of all claims because of the quality of sovereignty inherent in the United States. This in spite of the fact that when the loan was made the Government had insisted on taking security. Faced with the doubt as to whether the necessary new money to reorganize the road must be increased by nearly $2,000,000 in order to meet this claim, a reorganization was impossible until the case could be decided.

We did not know by $2,00,000, more or less, how much money we had to raise in the underwriting. The Attorney General's department carried the case to the United States Supreme Coure where a writ of certiorari was denied, but not until February 1930, and you all know what happened in the security markets in 1929. From that day to this no railroad, so far as I know, has emerged from receivership. About 19 important railroads have gone into receivership or bankruptcy. So far as I am aware, aside from a few columns of newspaper gossip, which does not mean very much, no real progress has been made toward the reorganization of any railroad since 1929, and I believe it is unfair to expect this property to be the leader in emerging from receivership.

Mr. Chairman and gentlemen of the committee, if you have followed me so far, I think you must concede that the United States Government is not wholly without responsibility for the predicament of this road.

The next chapter in its history commences at certain negotiations which were climaxed on August 29, 1934, when Jesse Jones, chairman of the Reconstruction Finance Corporation wrote to the reorganization committee, of which I am chairman, as follows:

RECONSTRUCTION FINANCE CORPORATION,
Washington, August 29, 1934.

REORGANIZATION COMMITTEE,
Minneapolis & St. Louis Railroad, New York, N. Y.

GENTLEMEN: If the Minneapolis & St. Louis Railroad should be taken out of receivership and reorganized upon a capitalization plan acceptable to the court, the Interstate Commerce Commission, and the Reconstruction Finance Corporation (that is, a capitalization that would enable the road to earn its fixed charges), the Reconstruction Finance Corporation will, upon a certification of the Interstate Commerce Commission, give favorable consideration to making a loan up to $4,750,000 to the newly organized railroad upon the security of a closed first-mortgage sinking-fund bond issue against said railroad of $8,000,000, the reorganization to exclude any part of the road that this Corporation might designate; the entire net earnings to be applied to interest on and retirement of this Corporation's loan until fully paid.

The manegement of the road to be acceptable to this corporation and our loan could run for 5 years at an interest rate not to exceed 5 percent.

Very truly yours,

JESSE H. JONES, *Chairman.*

To effect a reorganization with only $4,750,000 was a difficult task because of the underlying claims on the property. However, we undertook it and substantial agreement among practically all of the various classes of security holders and other creditors had been reached when on October 6, 1934, we received copies of a letter dated October 5 addressed to the presidents of various railroads in the Northwest, which reads as follows:

RECONSTRUCTION FINANCE CORPORATION,
Washington, October 5, 1934.

Mr. F. W. SARGENT,
President, Chicago & North Western Railway Co., Chicago, Ill.,
Mr. RALPH BUDD,
Chicago, Burlington & Quincy Railroad Co., Chicago, Ill.
Mr. H. A. SCANDRETT,
President, Chicago, Milwaukee, St. Paul & Pacific Railroad Co., Chicago, Ill.
Messrs. J. B. FLEMING, J. E. GORMAN, and F. O. LOWDEN,
Trustees, the Chicago, Rock Island & Pacific Railway Co., Chicago, Ill.
Mr. W. P. KENNEY,
President, Great Northern Railway Co., St. Paul, Minn.
Mr. L. A. DOWNS,
President, Illinois Central Railroad Co., Chicago, Ill.
Mr. CHARLES DONNELLY,
President, Northern Pacific Railway Co., St. Paul, Minn.
Messrs. N. B. PITCAIRN and F. C. NICODEMUS, JR.,
Receivers, Wabash Railway Co., St. Louis, Mo.

DEAR SIRS: Recently the Reconstruction Finance Corporation offered to cooperate with a committee composed of Messrs. F. J. Lisman, W. W. Colpitts, and Philip Roosevelt, in their effort to reorganize the Minneapolis & St. Louis Railroad, provide they could consummate a plan that would meet the approval of the court, the Interstate Commerce Commission, and the Reconstruction Finance Corporation.

It has been suggested that instead of reorganizing this railroad to continue operation as an independent system, in an area already suffering from excessive competition, that some of the connecting carriers might agree upon a plan of purchase at a foreclosure sale, with a view to each system taking such part of the Minneapolis & St. Louis as they might be able to use.

If such a plan can be effected and the territory still have proper railroad service, the R. F. C. is prepared, subject to the approval of the Interstate Commerce Commission, to cooperate in arranging the finances.

I would appreciate it if those to whom this letter is addressed would meet at my office to consider this suggestion Monday, October 15, at 10 a. m., or send an accredited representative.

Yours very truly,

JESSE H. JONES, *Chairman.*

Carbon copies to Mr. W. W. Colpitts, Messrs. Coverdale, and Colpitts, 120 Wall Street, New York City; Mr. F. J. Lisman, 42 Broadway, New York City; Mr. Philip Roosevelt, Messrs. Roosevelt & Son, New York City; Mr. W. H. Brenner, receiver, Minneapolis & St. Louis Railroad, Minneapolis, Minn.

I am not advised and do not know what it was that came along that changed the mind of the chairman of the Reconstruction Finance Corporation. Obviously something did. I again want to point out that had his mind not changed, this railroad would have been reorganized, and, consequently, to reiterate that here again, an agency of the United States Government must take some share of the responsibility for the fact that the road is still in receivership.

So much for history; now for the present and the future. First, is there an alternative to the dismemberment plan? The answer is, "Yes." If the Chairman of the Reconstruction Finance Corporation will lend to a new company the same amount of money that he has offered to the Associated Railways, having identically the same security, namely, a first lien on the entire property, I have no hesitation in saying that a reorganization can be effected in 60 days. As a matter of fact, I did not consider a reorganization based on a lien of $4,750,000 to be any too safe, but I am sure that a sound reorganization, based on a loan of $7,200,000, could be effected and probably a sound reorganization could be effected with $6,200,000 and possibly even a little less than that.

The next question is whether such a reorganization would be financially as sound as a reorganization under the Associated Railways plan? The answer is, "no"; but from the financial viewpoint the dismemberment plan is sounder only and exactly insofar as operations under it require less labor—smaller pay rolls. The whole virtue of the plan of the Associated Railways lies in the fact that under it a pay roll of approximately $4,500,000 a year would be put on relief. The seven roads which it is proposed shall take parts of the Minneapolis & St. Louis would handle the service with their own train crews and the repairs to rolling stock in their own shops. Naturally, this would be an economy, but the question in my mind is whether or not it would be an economy in the public interest at this time. If I understand the recovery theories of the present administration, they are based upon holding labor in its present status, or even improving its status, and awaiting an increase in volume of trade which will enable corporations to meet their pay rolls and to increase them. If any such increase in volume of trade is remotely in prospect, I believe the reorganization of the Minneapolis & St. Louis as a system can be soundly effected and very substantial earnings realized for the property in the future. This belief is based upon present performance. The present receivers of the road only took office in January 1935. In March 1936—that is the last month for which I have figures—for example, as compared to March 1935, gross revenues had increased 27½ percent, and this in spite of the fact that on-line loadings have been reduced. Of this 27½ percent in increase in gross revenue, 44 percent came through to net operating income. If we apply these increases to the results of 1935, we obtain the following results:

In 1935 the actual gross was $7,611,000. Increase that by 27½ percent and you get a theoretical gross of $9,704,000. That is an increase of $2,093,000.

Assume that 44 percent of that increase is brought down to net and you get an increase in your net compared to last year of $921,000.

The actual reported net last year was $102,000, and that would get a theoretical net, based on a 27½-percent increase, of $1,023,000.

I believe this gives an approximately true reflection of present conditions on the property, but I think it is only fair for us to estimate what the results might be under better conditions.

Admittedly this is an optimistic estimate, but I will tell you how I made it up. The peak year for the Minneapolis & St. Louis was 1923, and in that year their gross earnings were $16,605,000. However, they had some passenger revenue at that time, and I have thrown all the passenger revenue overboard, so that our freight revenue in 1923 was $14,104,000. That is an increase of $6,493,000 over their total revenues for 1935. And I am assuming that 44 percent of that increase in gross might come through to net, and that would increase your net by $2,875,000, which, added to the 1935 net of $102,000, would give you a total net of $2,959,000.

Now, admittedly that is optimistic, but I do not think any of us in this room can say that it is impossible that the gross earnings of this system as a system may not some day reach the figure that the freight revenues reached in the year 1923.

If I am correct in my opinion that a sound reorganization of the Minneapolis & St. Louis as a system can be effected, it seems to me the most important question is the question of whether it is more in the public interest to adopt the Associated Railways plan or to endeavor to reorganize the system as a whole. I have no question in my mind that it is more in the public interest to reorganize the system as a whole. In the first place, it preserves the benefits of the Peoria gateway.

The real economic excuse for the existence of the Minneapolis & St. Louis Railroad consists in the main-line mileage of the road running in a generally southerly direction from the Twin Cities through Mason City to Oskaloosa and Albia and in a generally easterly direction from Oskaloosa across the Keithsburg Bridge to Peoria. In addition to this mileage the railroad has numerous branch lines and feeders, some of which have value from an economic standpoint and others of which it would appear could not be abandoned in the public interest. The main line from the Twin Cities to Peoria connects the entire empire of the Northwest with the industrial and shipping centers of the East from Detroit southward and eastward and avoids the congestion and delay in shipping freight through the Chicago or St. Louis gateways, the congestion being, of course, especially bad in Chicago. A car of freight moving either from or to eastern points through the Peoria gateway saves not less than 12 hours as compared to a similar carload of freight moving through the Chicago or St. Louis gateways. In addition there is a very definite saving in money, the terminal charges in Chicago being not less than $12 per car, and if an intermediate road is used there is an additional charge of $4.80, and if two intermediate roads are used, as is often the case, there is still a further charge of $4.80 additional. This compares with a maximum charge through the Peoria gateway of $8 per car, and I am advised that the majority of cars through the Peoria gateway are handled for $4. The dismemberment plan would break up this arrangement, giving the east and west mileage from Oskaloosa to Peoria to the Burlington, which already has a line running east and west into Peoria parallel to that of the Minneapolis & St. Louis and very close to it, and giving the north-and-south line to the Milwaukee.

Query: Why does the Burlington want another line running east and west into Peoria only a few miles away from the line which it now owns? Is it to serve the public or is it because it would like to reroute traffic through the Chicago gateway and get the long haul over the Burlington's through line from the Twin Cities into Chicago?

I should like at this time to give my opinion on the question of whether the dismemberment plan is or is not in the public interest at this time. It all depends upon the definition of "public interest." Is it in the public interest that an agency of the United States Government shall abet the robbery of individuals? If so, then the dismemberment plan is in the public interest. Certain actions of the present administration lead me to believe that the present philosophy in Washington is not adverse to such conduct. In addition, the dismemberment plan is in the public interest if it is in the public interest at this time to put a pay roll of $4,500,000 a year on the relief rolls. I do not believe that the present temper of Washington believes such a drastic action is in the public interest. However, this is an election year. If it is in the public interest for the Burlington to close the Peoria gateway by the guaranteeing of $1,259,000, less whatever it is able to salvage as scrap, then the dismemberment plan may be in the public interest. If it is in the public interest that terminals in Minneapolis that have been valued at over $4,000,000 more than 20 years ago shall be sold for $1,799,000, then perhaps the dismemberment plan is in the public interest. If it is in the public interest that property valued by the Interstate Commerce Commission for rate-making purposes at around $47,000,000 be taken away from its owners and given to railroads who guarantee to pay $7,200,000 less whatever they are able to salvage as scrap, then the dismemberment plan is in the public interest; but if it is in the public interest that an organization with a pay roll of $4,500,000 a year be maintained as a going concern, and if it is in the public interest that investors be given an opportunity to preserve whatever equity there may be for them in their properties; if it is in the public interest that service for many communities as well as the very real advantages of the Peoria gateway be maintained, then it is in the public interest that the system be reorganized as such.

I think it is clear that the Minneapolis & St. Louis Railroad has been rendering service. The best test of whether or not it has been rendering service seems to me to be its gross earnings. Railroad men have a trick yardstick called traffic units, which they use to measure service rendered. A traffic unit is a ton-mile of freight, plus three times a passenger mile. However, with a ton-mile of freight being paid approximately 1 cent and a passenger paying approximately 3 cents a mile, the same result is achieved if we use gross earnings as a measure of service. It should be borne in mind of course that the Interstate Commerce Commission is the principal factor in the fixing of both freight and passenger rates. If gross earnings are at least a rough rule of thumb measure of service rendered, then it would seem to me that it can be clearly shown that the Minneapolis & St. Louis Railroad has been rendering service throughout its receivership and what is more it has been rendering this service, practically speaking, as a purely charitable proposition. The beneficiaries of this charity have been the employees of the property and the shippers over the line. I believe the time is coming, owing to the increased efficiency of management and to changes in economic conditions, so that the security holders are on the verge of seeing the possibility of realizing some return on their investment and I feel that it would be most unfortunate that just at this

time the property should be dismembered. It may interest you to know that, judged by gross earnings, the service rendered by the Minneapolis & St. Louis for the 10 years from 1924 to 1934, both inclusive, resulted in gross earnings of $135,000,000. What became of it? About $3,000,000 has been paid in interest, about 2 percent of the gross earnings; about $7,000,000 has been in taxes, over 5 percent of the gross earnings; about $75,000,000 has been paid in wages, about 60 percent of the gross earnings; and the balance, for the most part, has gone for materials and supplies.

I have here a chart which I made up yesterday afternoon, that shows what has been going on in this railroad, and it is the same thing which has been going on in all railroads pretty much. The Minneapolis & St. Louis is not atypical. It is reasonably typical of all the railroads of the country. In the year ending June 30, 1916—and, recollect, that was the middle year in the "test period"—this road took in $10,722,000 gross; 38.3 percent of that went for wages and 20.5 percent went for interest. That was 58.8 percent that went as a return on capital and labor.

In the 11-year period 1924–34, 56.3 percent went for wages and 2 percent for interest.

Now, that is interesting. If you take the 1916 figures of 20.5 percent of your gross as return on capital and 38.3 percent for labor you get the figure of 58.8 percent compensation for capital and labor in runing a railroad.

If you take the 11-year period 1924 to 1934, both inclusive, you get 56.3 percent for wages and 2 percent for capital, and you get a total of 58.3 percent, or about the same as the other figure.

Taking the very last year for which I have figures, which is 1934, 59.2 percent of the gross earnings went for wages and 2 percent of the gross went for interest. That was 61.2 percent that went to capital and labor. And last year, with the return of the pay increases, why of course the percentage of our gross earnings that went to labor was still higher.

Would the Senators be interested if I passed this little chart around? It makes the thing a little clearer.

You might ask me if in view of those facts there is any chance for making any money out of this property if labor is to get it all and capital is to get none. I think I have answered that earlier in the statement. I believe that with the increased efficiency of management and with a prospective increase in gross, some return on our capital invested is reasonably probable—practically certain—and I believe myself that some year again we are going to have boom years in trade, and if such a year ever does come it is quite within the bounds of possibility that this road might earn $3,000,000 net available for payment of interest or dividends on whatever capitalization it then had.

That is all I have prepared, Mr. Chairman.

Senator SHIPSTEAD. Do I understand you to say that a loan for the purpose of reorganization was offered the bondholders or the representatives of the bondholders?

Mr. ROOSEVELT. I read a copy of a letter from the Chairman of the Reconstruction Finance Corporation which under certain conditions offered us $4,750,000 for the reorganization of the property. When

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we got that letter, we went to work and we prepared a plan of reorganization which was about 90 percent adopted. I cannot testify truthfully that it had the universal approval of all the creditors, but it was about 90 percent adopted; and then I received this copy of a letter that the Chairman of the Reconstruction Finance Corporation sent to these various railroad presidents which called us off.

Senator TRUMAN. Did the Reconstruction Finance Corporation initiate the dismemberment plan?

Mr. ROOSEVELT. I do not know. So far as I know they did. All I can say is—and get those dates—August 29, 1934, they offered me $4,750,000. October 5, 1934, they asked a number of railroad presidents to come to the office of the Chairman of the Reconstruction Finance Corporation. The letter invited these railroad presidents to come says, "It has been suggested"; and they sent me a copy of that letter. The letter further says that this negotiation is instead of their negotiations with me.

Senator TRUMAN. You made a statement, I believe, that you thought it might be the policy of the present administration to abet a robbery of the bondholders and the stockholders of the railroads. You did not mean that, did you?

Mr. ROOSEVELT. I cannot take their acts any other way.

Senator TRUMAN. On what do you base that?

Mr. ROOSEVELT. They considered it in the public interest to repudiate the good name of the United States.

Senator TRUMAN. Well, of course, now, that is a point of view which you take, apparently.

Mr. ROOSEVELT. No. They considered it in the public interest, did they not, sir?

Senator TRUMAN. I should say they did; and I think what they did was right.

Mr. ROOSEVELT. Now let us get down to a question of public interest, Mr. Senator. Is it in the public interest to take money away from the individual for the benefit of the community? I am not prepared to say. I think the founding fathers said it was not.

Senator TRUMAN. No one else is prepared to say. It depends on circumstances. But I do not think you would mean to say that the present administration would abet taking money away unjustly.

Mr. ROOSEVELT. Taking away money from one individual to give it to others.

Senator TRUMAN. But you would not mean to say that the present administration would abet a robbery of an individual?

Mr. ROOSEVELT. I am not talking about an individual. I am talking about a policy. Was it in the public interest to take money away from certain individuals to give it to others? What is the basis of their whole relief plan? Taking money away from New York to give it to backward States.

Senator BENSON. That has no bearing on this railroad.

Mr. ROOSEVELT. Absolutely none, except I cannot tell what the definition of "public interest" is in this matter.

Senator BENSON. Just what did you mean by the answer you made in reply to the question by Senator Truman in relation to taking money as it affects this railroad?

Mr. ROOSEVELT. I do not know whether they would consider it in the public interest to wipe out our probable future equity in this

property in order to give it to somebody else, namely, to the other busted railroads.

Senator BENSON. In other words, you think that probably the policy of the Reconstruction Finance Corporation is to take whatever equity the present owners of the Minneapolis & St. Louis have and turn it over to the Associated Railways; is that it?

Mr. ROOSEVELT. That is correct. That is the result of their policy. I do not know whether they know it, but that is what they are doing.

Senator TRUMAN. I think the Chairman of the Reconstruction Finance Corporation ought to be called and questioned about that, and give him a chance to make a statement.

Senator SHIPSTEAD. Oh, yes; he will be given plenty of chance.

Senator TRUMAN. I still do not think you mean that this administration would rob one set of taxpayers for the benefit of another.

Mr. ROOSEVELT. All right. Cross that out if you do not feel that is my belief.

Senator SHIPSTEAD. You were speaking about a Government agency in the first part of your statement?

Mr. ROOSEVELT. Yes, sir.

Senator SHIPSTEAD. What agency did you have reference to?

Mr. ROOSEVELT. There have been various Government agencies involved in this thing.

Senator SHIPSTEAD. We are interested only in this particular agency at the moment.

Mr. ROOSEVELT. So far as the plan here, no. 10947, is concerned, the Government agency that is making it possible is the Reconstruction Finance Corporation, which has offered to advance the money. They hold the purse strings.

Senator SHIPSTEAD. I believe you said that this proposed loan to the bondholders—that is, the first loan suggested on the property so it could be conducted as a system—would not be such a good loan as the proposed loan to the Associated Railways. Will you explain why? You also made the statement that they are "busted" railroads. I understand that they are in the hands of receivers.

Mr. ROOSEVELT. Well, I believe it is called "bankruptcy" under our new code.

Senator SHIPSTEAD. Yes; they are in bankruptcy.

Mr. ROOSEVELT. We are in the hands of a receiver, but they are in bankruptcy, which is a distinction without a difference.

Senator SHIPSTEAD. And as I understand it, the security they are to give to the Government is a first mortgage on the stubs that are left after they dismember the railroad, based upon the earnings of those stubs, as I understand it. Is that correct? Do you understand the application that way?

Mr. ROOSEVELT. The application calls for a loan to the Associated Railways of $7,200,000. This is to be guaranteed partly by the Burlington, which is solvent; partly by the North Western, which is in bankruptcy; partly by the Milwaukee, which is in bankruptcy; and partly by various others. They are to guarantee the basis of the loan.

The reason, economically, the loan is a better loan is because the railroads that operate these various stubs, as you have called them, Mr. Chairman, will operate those stubs with their own train crews

and will make the repairs in their own shops; and it is a better loan exactly to the extent that the pay roll of $4,500,000 a year of the Minneapolis & St. Louis is reduced. Just to the extent they let those fellows out they will have net earnings available to pay the interest on that loan.

Senator SHIPSTEAD. Then the savings will be at the expense of labor?

Mr. ROOSEVELT. Then the savings will be at the expense of labor. Railroading is fairly simple so far as its accounts are concerned. Your net earnings are nothing but your gross earnings on one side less your expenses on the other. The gross earnings are the result of your rates and your traffic. Your expenses are what you spend for materials and supplies and what you spend for labor. Under the Associated plan there will be no saving, or practically no saving in materials and supplies, the whole saving in materials and supplies coming from the abandonment of property. The great saving—I venture to say practically the entire saving—will come out of labor.

Senator SHIPSTEAD. Are you familiar with the so-called Joe Eastman plan of consolidation of all the railroads?

Mr. ROOSEVELT. I used to be, but I have not looked at it for years, sir.

Senator SHIPSTEAD. What you have said about the consolidation of this railroad, that it would be at the expense of labor—that is, the consolidation of this railroad with other railroads—would you say that that generally would apply to the consolidation of other roads too?

Mr. ROOSEVELT. Absolutely. Saving must come from one of two points. It either must come from a reduction in materials and supply expense or labor expense. In order to serve this country with the transportation system that it needs there is mighty little reduction coming in the material and supply end. Maybe a little, but so little that the consolidations certainly would not be worth while on that basis.

Senator SHIPSTEAD. It has been suggested under the Joseph B. Eastman plan of consolidation that it will lay off 250,000 men. Do you think that may be a proper estimate?

Mr. ROOSEVELT. My guess would be that that is probably too high.

Senator SHIPSTEAD. You think that would be high. But whatever it is, you think that would be all a saving out of expense for labor?

Mr. ROOSEVELT. Yes; correct.

Senator SHIPSTEAD. And what about those men who have no other means of livelihood in this present unemployment; would it put them on relief?

Mr. ROOSEVELT. Correct.

Senator SHIPSTEAD. As I understand it, this railroad went into receivership in 1923?

Mr. ROOSEVELT. Correct.

Senator SHIPSTEAD. The record here would indicate there were no bonds in default when the road went into receivership?

Mr. ROOSEVELT. That is correct.

Senator SHIPSTEAD. There had been no default in bonds since the reorganization in 1912?

Mr. ROOSEVELT. That is correct.

Senator SHIPSTEAD. Under the Transportation Act passed in 1920 there was an increase in rates, was there not?

Mr. ROOSEVELT. My recollection, sir, is that just before the Transportation Act was passed there was an increase in rates.

Senator SHIPSTEAD. Before 1920?

Mr. ROOSEVELT. Well, as I recall it, it was just a few days before the Transportation Act was passed. The Transportation Act was passed on the last day of the session, as I recall it, some time in June. I am probably wrong on that. Before the Transportation Act was signed, but after it was passed, there was an increase in rates.

Senator SHIPSTEAD. After it was passed?

Mr. ROOSEVELT. After it was passed, but before it was signed. Before it became effective.

Senator SHIPSTEAD. The record shows that up until the time the road went into receivership the road earned and paid on the funded debt something like $22,500,000.

Mr. ROOSEVELT. Correct.

Senator SHIPSTEAD. And it went into receivership in 1923?

Mr. ROOSEVELT. 1923.

Senator SHIPSTEAD. After raising the rates?

Mr. ROOSEVELT. It should have gone into receivership in 1921, I think.

Senator SHIPSTEAD. Under a lower rate structure it had earned and paid on all funded debt up until 1923, and was paying?

Mr. ROOSEVELT. That is right.

Senator SHIPSTEAD. I think I understand your testimony to indicate that you thought that the low rate structure had had something to do with the road going into receivership?

Mr. ROOSEVELT. Well, sir, apropos of that, in 1923 8⅞ percent of this road's entire ton-miles was made up of flour and meal, and the average rate on that better than 8¾ percent of its total tonnage was 0.25 of 1 cent—a quarter of a cent per ton-mile. On other mill products, which made up 2¼ percent of the road's traffic the rate was 0.312 of a cent—thirty-one one-hundredths of a cent per ton-mile. And on potatoes, which made up 4.17 percent of the ton-miles of the property the rate was three-quarters of a cent—0.767. And on bituminous coal, which made up 29½ percent of their ton-miles, the rate was 0.669 of a cent. And I do not believe any railroad man can testify that on 0.25 or 0.312 of a cent, at which rate they carried over 11 percent of their total traffic, they made the cost of the train crews and the coal that they burned.

Senator SHIPSTEAD. Well, that may be. Can you tell us what the funded debt was at the time the road went into receivership? Has it increased since the receivership, do you know?

Mr. ROOSEVELT. Yes, it has. They put out a million and a quarter dollars of receivers' certificates.

Senator SHIPSTEAD. Yes; but aside from that were there any bonds issued?

Mr. ROOSEVELT. Aside from the 1¼ million dollars of receivers' certificates, no. The funded debt at the time of the receivership was approximately you gave, sir. Was it not $42,000,000? It was about that.

Senator SHIPSTEAD. If the road had had a reasonable amount of funded debt on which to pay fixed charges it would seem to me that

the road would not have gone into receivership; it would not have had to pay so much on a fictitious capitalization.

Mr. ROOSEVELT. Well, I am sorry, but I do not think that is the case, Mr. Senator. The net earnings with this railroad, as with practically all railroads in western trunk-line territory, got down to zero, and when your net earnings get down to zero you cannot pay any interest on any fixed charges.

I did some work on that the other day in connection with the Milwaukee, which also applies to this property, that I thought was interesting, and if you will permit me it will take me but a minute to tell you what it was. They say the Milwaukee is in the hands of the receiver because its fixed charges were too high. In 1886 the Milwaukee was a road of the very highest credit. If the Milwaukee had not sold another bond, if it had not increased its charges one cent over the fixed charges of 1886, if it had done all its financing ever since 1886 by stock based upon the earnings of 1932, 1933, and 1934, the Milwaukee would be "busted" today.

Senator SHIPSTEAD. What do you think was the main factor in "busting" the Milwaukee?

Mr. ROOSEVELT. What do I believe was the main factor in "busting" the Milwaukee?

Senator SHIPSTEAD. Yes.

Mr. ROOSEVELT. Two things, which are shown quite clearly on the chart that I handed up to you, sir. One of the most important items was that they did not take in enough gross. The gross receipts were too small. The other item that was important was that the percentage of the gross which they paid to labor was increasingly large, and the combination of those two factors taken together produced a condition of practically zero net earnings, and with practically zero net earnings they could not pay any interest charges.

Senator SHIPSTEAD. You do not think that the building of the line to the Pacific coast had anything to do with wrecking the road?

Mr. ROOSEVELT. Well, the building of the line to the Pacific coast had the following effects: It doubled their business; and since it was built they have multiplied their efficiency by five. Judged by any standard of measurement of a railroad's efficiency that you can take, I do not think that the building of the Puget Sound extension was the cause of the receivership of the Milwaukee road.

Senator SHIPSTEAD. Do you mean to tell this committee that in your opinion the piling up of debts of the railroads has not resulted from overcapitalization? Am I to infer that from what you say?

Mr. ROOSEVELT. Mr. Senator, I think popular impressions are generally incorrect. There is a popular impression in Wall Street, in Peoria, in Los Angeles, and in Washington that the railroads are facing their present difficulties on account of their excessive debt. From all the study I have been able to put on the subject—of quite a few years—I feel that that popular impression is incorrect, as are so many others.

Senator SHIPSTEAD. You think that the Minneapolis & St. Louis Railroad is a pretty fair road?

Mr. ROOSEVELT. I think it is about as good a little single-track road as you are likely to find, especially on the main line.

Senator SHIPSTEAD. How much debt do you think it can stand?

Mr. ROOSEVELT. That largely depends on the actions of instrumentalities or agencies of the United States Government, but it ought to be able to earn in a poor year $1,250,000 net a year. Now let us see what is safe on that. I should say one-third of that ought to be available for fixed charges, and one-third of $1,250,000 is around $400,000, and if we assume interest rates at 4 percent, which is about what the interest rate on good bonds seems to be at the present time, $400,000 is 4 percent on $10,000,000. Then you would have left over $850,000 for net available for dividends. And if we capitalized that at 10 times earnings, that would give you $8,000,000 market value for your stock, and that would give you a value for the property of $18,000,000.

Senator SHIPSTEAD. And do you think that would be a fair capitalization?

Mr. ROOSEVELT. I do.

Senator SHIPSTEAD. Then you think that the present capitalization is entirely too heavy?

Mr. ROOSEVELT. I do.

Senator SHIPSTEAD. Too top-heavy?

Mr. ROOSEVELT. I do. Any reorganization must be a realistic reorganization. We must not be theoretical. We must face facts. The facts are that in order to run this railroad we have got to pay wages, and the facts are that in order to run this railroad we have got to accept the rates that are ordered for us by the Interstate Commerce Commission, and we can only save from that the difference between what we take in gross and what we pay out. And under the circumstances as they prevail, why I should say that a capitalization higher than that would be foolish. I am not saying that I do not think that in a boom year that stock might sell for more than $8,000,000. I hope very much it will. But any capitalization based on a hope of that kind would not be a realistic reorganization.

Senator BENSON. Mr. Roosevelt, why would it not be proper for you to resubmit your plan of reorganization to the Interstate Commerce Commission at this time in order to have it considered along with the present proposition of the Associated Railways?

Mr. ROOSEVELT. I cannot submit a plan to the Interstate Commerce Commission unless I can borrow the money from the Reconstruction Finance Corporation.

Senator BENSON. Why could not the application be resubmitted to the Reconstruction Finance Corporation?

Mr. ROOSEVELT. The Reconstruction Finance Corporation has told us to stay off. They said that they are interested in this Associated Railways' plan.

Senator BENSON. I know, but for all practical purposes it could be resubmitted?

Mr. ROOSEVELT. They have said no, sir. They will not give me the money. I have not got that in writing, but orally they have told me that they have withdrawn their offer of $4,750,000. They have told the reorganization committee that.

Senator BENSON. But for all practical purposes would it not be proper to resubmit it to both agencies at this time in order o have them up against the proposition of deciding just which plan is in the public interest?

Mr. ROOSEVELT. I do not know that I entirely get your suggestion, sir. I cannot go to the Interstate Commerce Commisison and say that I have a reorganization that would work very nicely provided the Reconstruction Finance Corporation would lend me the money, when the practical working of that is that the director of finance of the Interstate Commerce Commisison would pick up his telephone and ask somebody in the Railroad Division of the Reconstruction Finance Corporation, "Have you agreed to lend these fellows any money?" And the answer would be, "No." Then the director of finance of the Interstate Commerce Commission would not give me much consideration.

Senator BENSON. I understand from what you said then, that the Reconstruction Finance Corporation tells the Interstate Commerce Commission what they should do?

Mr. ROOSEVELT. No.

Senator BENSON. When the law specifically states that the Interstate Commerce Commission should first pass on these applications?

Mr. ROOSEVELT. I have made a bad mistake if I have created any such impression. I certainly did not mean to. What I do mean to say is that the Interstate Commerce Commission will not consider a reorganization unless they know how it is going to be financed, where the new money is coming from. And if I go to the Interstate Commerce Commission and say that this new money is coming from the Reconstruction Finance Corporation, they will say, "What evidence have you got of that fact?" And unless I have a letter or something by way of evidence of that fact they will not listen to me.

Senator BENSON. Does not the law state, however, that the applications for loans that are filed with the Reconstruction Finance Corporation shall be passed upon by the Interstate Commerce Commission?

Mr. ROOSEVELT. That is correct. The practical procedure for a reorganization management is to go to the Reconstruction Finance Corporation, and they write him a letter similar to this one they wrote me, saying that subject to the approval of the court and subject to the approval of the Interstate Commerce Commission they are willing to make me such-and-such a loan. Then, based on that letter, I draw up a reorganization plan which I take to the Intertsate Commerce Commission. That is the practical procedure that occurs.

Senator BENSON. Then the practical procedure is not as it is prescribed by law, as I understand it?

Mr. ROOSEVELT. I would not be competent to say that counsel for the Reconstruction Finance Corporation or the Interstate Commerce Commisison were disobeying the law. I am not a lawyer, and I am not sufficiently familiar with the law to confirm or deny, but I assume that they are obeying the law. Their lawyers must have told them how to do it. I do not know. I am no lawyer. I hire guys to do that.

Senator BENSON. But you do know, however, that the Interstate Commerce Commission is supposed to pass on the application for a loan?

Mr. ROOSEVELT. They must pass on the application before the Reconstruction Finance Corporation grants it. The Reconstruction Finance Corporation says "subject to the approval of the Interstate Commerce Commission we will lend you $4,750,000."

Senator BENSON. But the way you have outlined it, the Reconstruction Finance Corporation passes on the loan before they get any word from the Interstate Commerce Commission?

Mr. ROOSEVELT. I would say they take a negative, not a positive position. Do you see what I mean? They will not lend you the money.

Senator BENSON. I think I understand.

Senator SHIPSTEAD. They certainly would not lend you the money until they had considered this other loan?

Mr. ROOSEVELT. That is correct.

Senator MURPHY. They have already given their approval.

Senator SHIPSTEAD. Yes; they have already given their approval.

Mr. ROOSEVELT. The Interstate Commerce Commission?

Senator SHIPSTEAD. No; the Reconstruction Finance Corporation.

Mr. ROOSEVELT. The Interstate Commerce Commission has said to them just what they originally said to them—the Associated Railways. Subject to the approval of the Interstate Commerce Commission, the Associated Railways may have this money under this plan.

Senator MURPHY. But, Mr. Roosevelt, the Reconstruction Finance Corporation is not occupying that position today. The Reconstruction Finance Corporation requested you to withdraw your application? Am I correct in that understanding?

Mr. ROOSEVELT. They did not request me to withdraw. They told me I could not have the money. They said they had changed their minds and I could not have it.

Senator MURPHY. And then did you understand that the Interstate Commerce Commission passed on the proposal that you have submitted?

Mr. ROOSEVELT. No; they did not. It never was submitted to them formally.

Senator MURPHY. Was it submitted to them informally?

Mr. ROOSEVELT. It was never submitted to them formally. It was submitted to them informally.

Senator MURPHY. Really, then, the position in which you find yourself today is that the Reconstruction Finance Corporation has a closed mind; the Reconstruction Finance Corporation is committed to this loan to the Associated Railways?

Mr. ROOSEVELT. Yes.

Senator MURPHY. And it has closed its mind to a consideration of any other propositions that might be submitted?

Mr. ROOSEVELT. That is my understanding; that with the Associated Railways plan of reorganization before them they will not consider lending money to any other corporation that might be used in connection with the reorganization of this property.

Senator MURPHY. Mr. Roosevelt, unfortunately I was detained this morning in other committee work, and you may have covered ground which I will seek now to cover in some questions that I will address to you. There are a few points I have in mind that I want to get definitely fixed. In the first place, the bondholders of this railroad, as represented by you, are not approving the course of the Reconstruction Finance Corporation?

Mr. ROOSEVELT. The bondholders are getting nothing from the Associated Railways plan, practically speaking, but a kick in the face.

Senator MURPHY. You have made the statement that this railroad with normal business should make $1,250,000 a year net?

Mr. ROOSEVELT. In a reasonably poor year.

Senator MURPHY. In a reasonably poor year; that is not even an average year?

Mr. ROOSEVELT. I think you must base a realistic reorganization on a reasonably poor year.

Senator MURPHY. Under this plan of dismemberment and sale, have you made a figure as to what that would yield to the bondholders of the railroad? Before you reply, let me say that a witness yesterday testified that in his opinion it would return $3 a thousand on the bonds outstanding.

Mr. ROOSEVELT. In my opinion that is not correct. I have here an allocation which I am ashamed to submit to anybody. I submitted it to my own committee simply as a very rough allocation of what the various issues of bonds might get, and there are so many assumptions in it, and there must in the nature of the application be so many assumptions in it, that it is only the barest indication of what the bondholders might get. But I want to say that I submitted it to the chairmen of the various committees and they accepted it for what it is, namely, the most reasonable approximation we could make at this time as to what there might be in it for the bondholders.

There are seven defaulted issues of bonds, and no two of them would get the same amount of money. The Minneapolis & St. Louis refunding and extension 5's of 1962 would get approximately 30 cents a hundred dollars—$3 a thousand. Those are the bonds which are pledged with the United States Government for the Government loan made to the road. Those are the bonds that are pledged with the United States Government. Would you like to know what any of the other issues might get?

Senator MURPHY. I think it would be interesting.

Mr. ROOSEVELT. The Merriam Junction-Albert Lea mortgage is a very small mortgage of only $950,000, covering that part of the line that runs into the Twin Cities from Albert Lea. It has a terrific heavy density mileage and a very low rate per mile. Including their back interest they would be paid in full. In other words, that $950,000 par value of bonds would receive $1,150,000, equivalent to $121 per $100 bond. Naturally that committee, whose chairman I saw yesterday, is in favor of the dismemberment plan, and as chairman of the reorganization committee I do not represent that committee here before you today, sir. The other committees I do represent.

Senator MURPHY. All other committees, Mr. Roosevelt?

Mr. ROOSEVELT. Yes. The Minneapolis & St. Louis consolidated 5's, $5,280,000 mortgage; those fellows would get $6.80 per $100 bond.

Iowa Central first 5's, a $7,650,000 mortgage, would receive $12.90 per $100 bond.

The Des Moines & Fort Dodge 4's, a $3,072,000 mortgage, would receive $8.80 per $100 bond.

Minneapolis & St. Louis refunding 4's of 1949, a $13,244,000 mortgage, would receive the bare sum of $69,000, or 50 cents per $100 bond.

The Iowa Central 4's of 1951, a $7,156,000 mortgage, would receive $1.95 per $100 bond.

The Minneapolis & St. Louis refunding 5's of 1962, as has already been said, would receive approximately 30 cents per $100 bond.

Senator MURPHY. That is a very interesting computation.

Senator SHIPSTEAD. Give us the total of what they would receive.

Mr. ROOSEVELT. The total they would receive would be $3,000,000.

Senator MURPHY. If I may follow along a little further. Reverting again to the earnings that you say this railroad could make in a reasonably poor year. That would admit a 4-percent return on a $10,000,000 bond issue, and it would admit a return on an issue of $8,000,000 of stock?

Mr. ROOSEVELT. It would admit a $10 a share return on an issue of $8,000,000 of stock.

Senator MURPHY. Ten-percent return. If you could get that much it would do as well as anybody might expect to do now. If the Reconstruction Finance Corporation approves dismemberment, the bondholders are washed up?

Mr. ROOSEVELT. Aye, aye, sir.

Senator MURPHY. We shall have wrung the thing through the wringer then. We are not running our farmers through the wringer. We are not running our home owners through the wringer. We are not running the corporations who avail themselves of 77B through the wringer. Whatever chance the bondholders have to recapture the values of their equities disappears with the approval of this dismemberment sale?

Mr. ROOSEVELT. That is the point exactly.

Senator MURPHY. We in Congress adopted the Corporate Bankruptcy Act, with the 77 (b) provision to help corporations that are insolvent. The Reconstruction Finance Corporation today occupies the attitude really of nullifying that enactment of Congress. Is that a fair conclusion?

Mr. ROOSEVELT. I would rather you got it from somebody on the R. F. C., sir. May I say a word here? I am in a very embarrassing position. To reorganize this railroad eventually will require the good offices of the Reconstruction Finance Corporation. I have tried to keep out of these hearings, and have tried to keep out of the hearings before the Interstate Commerce Commission, because I realize that to reorganize this railroad eventually I must seek the good offices of the Reconstruction Finance Corporation. If I gratuitously criticize their acts, there is going to be no hope for me when I go there and ask for a loan. I believe—and it is indiscreet of me to say so—that their plan is so preposterous that it has no possible chance of prevailing. That is why neither I nor any of the other bondholders have taken any active steps in opposition to it. Today I am coming clean and telling you what we think about it. And it is going to make it terribly difficult when this plan collapses, as I am sure it will, for me to go to Mr. Jones and ask to borrow some money for a plan to reorganize the system as a whole. Now, I would rather not confirm your statement, if you will excuse me from doing so.

Senator MURPHY. I will absolve you from the necessity of doing it, Mr. Roosevelt; but to me it is quite clear that Congress in passing that Corporate Bankruptcy Act intended to help the Minneapolis &

St. Louis no less than any other corporation. We have the Reconstruction Finance Corporation in this position, that it has declined the proposal made by the bondholders. It is shutting off from consideration all but one bidder, to wit, the Associated Railways. Mr. Roosevelt, you testified that a loan of $7,500,000 to Associated Railways——

Mr. ROOSEVELT. $7,200,000.

Senator MURPHY. Yes; $7,200,000—would be better secured than a loan of $4,750,000, to effect the reorganization of the Minneapolis & St. Louis Railroad. I may have that figure wrong.

Mr. ROOSEVELT. No. May I interrupt you, Senator?

Senator MURPHY. I wish you would.

Mr. ROOSEVELT. I did not testify to that. I testified that a loan of $7,200,000 to the Associated Railways would be better secured than a loan of $7,200,000 to a new company to reorganize the property as a system. And, frankly, I would have some reservations whether with a loan of $4,750,000 we could effect a reorganization that would stand up. This property ought to have some money spent on it. If we spent some money on it we could make some more money. I was always skeptical of the $4,750,000. It was all that was offered me, and I decided to take off my coat and try to make it work, because it was all I could get. But I did testify that a loan of $7,200,000 to the Associated Railways would be better secured, because there would be more labor savings than with a loan of $7,200,000 to the system.

Senator MURPHY. Yes. There could not be any quarrel with your conclusion from the facts as stated by you, and I certainly do not dissent from your conclusion on that point. It was testified here yesterday that perhaps $2,000,000, a sum sufficient to pay off the receivers' certificates outstanding, and pay the cost of reorganization, would be adequate, but in your view, that is wholly an inadequate amount to put the road where it ought to be to function properly?

Mr. ROOSEVELT. That is impossible under the present court decree. I have got to work with facts as I have them. There is a court decree, and this road is being offered on the courthouse steps every 60 days, and the only thing we can deal with is the court decree that I have got. Now, the testimony of yesterday, I believe, was sincere, but it was based on modifying the court decree, and just how you could go about doing that after the court has given a final decree of foreclosure would require the employment of high-grade legal talent, let us say. I do not know how to do it.

Senator SHIPSTEAD. What did the final decree provide for?

Mr. ROOSEVELT. The final decree provides for the payment of the receivers' certificates, the Albert Lea bonds, and the so-called preferred claimants. Plus interest on those three issues.

Senator SHIPSTEAD. How much will that take?

Mr. ROOSEVELT. That takes about $4,200,000.

Senator SHIPSTEAD. And you say you would have to put some money into the road. What would that be for?

Mr. ROOSEVELT. I am not a railroad operating man, but I earnestly believe that with the present management—give Mr. Sprague 10 high-pressure superheated locomotives, and the service between Peoria and Mason City would be conducted very much more cheaply and more efficiently and at less expense. There the saving would come, as all savings in railroading come, partly from a reduction in labor.

In that particular case, a large proportion would come from the savings in materials and supplies.

Senator SHIPSTEAD. How much would those locomotives cost? How much money would you have to get for that?

Mr. ROOSEVELT. I would rather have a railroad man testify about that. I have never bought a locomotive in my life, Senator.

Senator SHIPSTEAD. Can you give an estimate of what would be saved thereby?

Mr. ROOSEVELT. Again I would rather have the operating officials testify as to that. I am not an operating man. I have an estimate, but it would not be much good.

Senator SHIPSTEAD. I will ask Mr. Sprague to state as to that. Can you tell us, Mr. Sprague, how much those 10 locomotives would cost?

Mr. SPRAGUE. They would cost about $120,000 apiece, Mr. Senator.

Senator SHIPSTEAD. That would $1,200,000. Thank you.

Mr. SPRAGUE. May I say in addition to Mr. Roosevelt's statement, since he has opened the subject, that I should like to have about 500 box cars, at about $2,000 apiece, if it would be possible to obtain them.

Mr. ROOSEVELT. There, again, your saving would be principally in materials and supplies through the use of them, and not a saving by reduction of labor.

Mr. SPRAGUE. There would be some saving in per diem, or in other words, car hire.

Senator SHIPSTEAD. Have you an estimate of what you would save in expenses if you had the new locomotives and cars?

Mr. SPRAGUE. I have made a very careful study of it, Mr. Senator, and it would save around $35,000 a month, if we were able to eliminate helper locomotives and some others.

Senator SHIPSTEAD. That would be $420,000 a year.

Mr. SPRAGUE. I should like to reduce it to $400,000.

Senator SHIPSTEAD. Mr. Roosevelt, under the court decree are you compelled to reorganize under that decree. Are you barred from reorganizing under 77 (b)?

Mr. ROOSEVELT. No. When we were offered the $4,750,000 we planned to reorganize under 77 (b). That procedure is one which, not being a lawyer, I would not attempt to explain. But we had called a meeting of the directors of the road who represent the poor, unfortunate stock, which is not going to get anything under any reorganization plan that I have ever seen, and they were going to meet and admit that they were bankrupt and apply for a 77 (b), and that meeting was called off because on the very day that it was to be held we received the letter, or the copy of the letter dated October 5, which was addressed to these various railroad presidents.

The point is this, Mr. Senator, that whether we reorganize under 77 (b) or whether we reorganize under the old-fashioned equity receivership we cannot reorganize without some new money, and as we cannot get the new money from the Reconstruction Finance Corporation we cannot get the new money, and if we cannot get the new money there is no use doing a 77 (b).

Senator SHIPSTEAD. And no other railroad can get money from private lenders. They have all got to go to the Reconstruction Finance Corporation.

Mr. ROOSEVELT. None of the "busted" roads can.

Senator SHIPSTEAD. Sir?

Mr. ROOSEVELT. None of the "busted" roads can.

Senator SHIPSTEAD. No; nor railroads in receivership.

Mr. ROOSEVELT. No railroad, so far as I know, has been reorganized since 1929, and so far as I see I am very much discouraged about it. I do not think there has been any real progress toward the reorganization of any railroad in recent months.

Senator SHIPSTEAD. This is the only road that they seemed to be in a hurry to put through the wringer, and it seems to me that your bondholders have been denied the remedy proposed and enacted by Congres, furnished by Congress, and you have been denied that remedy by an agency created by Congress and endowed with public funds to lend to distressed industries in order to keep employment going and to help distressed industries. As I understand it, the Reconstruction Finance Corporation has loaned the Associated Railways something like $90,000,000.

Mr. ROOSEVELT. You mean all the railroads of the United States, not the Associated.

Senator SHIPSTEAD. Then I am misinformed.

Mr. ROOSEVELT. The Associated Railways is this little thing that is going to have this plan.

Senator MURPHY. Organized for this purpose.

Mr. ROOSEVELT. Yes; organized for this purpose. I do not know what the Reconstruction Finance Corporation loans to all the railroads of the United States are, out of my own head, I will say frankly. I thought it was more than that.

Senator MURPHY. It has loaned that money, Mr. Roosevelt, on acceptance of reorganization plans, or approval of reorganization plans by the Reconstruction Finance Corporation.

Mr. ROOSEVELT. So far as I know the Reconstruction Finance Corporation has not loaned any money for any reorganization yet. Nobody has been reorganized.

Senator MURPHY. Under 77 (b)?

Mr. ROOSEVELT. Nobody has come out of receivership yet. Nobody has come out of bankruptcy.

Senator MURPHY. But they have loaned it to them in receivership, have they not?

Mr. ROOSEVELT. Yes.

Senator MURPHY. That is what I mean.

Mr. ROOSEVELT. Yes; that is correct.

Senator SHIPSTEAD. But they refused it to these people.

Senator MURPHY. Yes; they refused it to them. That is quite definitely in the record. Mr. Roosevelt, you have stated that in your opinion the bondholders will get about $3,000,000 out of this dismemberment plan?

Mr. ROOSEVELT. That is my very rough estimate, and, as you know, Mr. Senator, the wish is always the father to the thought. I am afraid that I was a little bit liberal there, perhaps, but I could not help it. When I make mistakes in my check book it seems they always turn out in my favor and not in the bank's favor, and I thought probably when I was estimating on this I was a little liberal, but it was the best guess I could make.

Senator MURPHY. Have you made a figure on how long it would take to amortize and meet the interest on a debt of $4,650,000?

Mr. ROOSEVELT. How long would it take? It takes just as long to amortize a debt of $4,650,000 as it does to amortize a debt of 465,000,000,000, if you use the same amortization rate. It is a percentage proposition.

Senator MURPHY. My question presumed a fact, and the presumption of fact was the earning by the railroad of the figure of $1,250,000 that you set as the probable earnings in a reasonably poor year. My question was predicated on that.

Mr. ROOSEVELT. I can do the mental arithmetic in my head very rapidly. If we earn $1,250,000 a year and pay $400,000 in interest, we have $850,000 as earnings. If the entire $850,000 earnings is applied to the amortization of a debt of $4,650,000, it will take something less than 6 years.

Senator MURPHY. That is not mental arithmetic; it is oral gymnastics.

Senator SHIPSTEAD. If your committee of bondholders could be permitted through a loan of the R. F. C. to reorganize this property, could you do it under section 77-B?

Mr. ROOSEVELT. I would have to go to the lawyers about that, but I presume so.

Senator SHIPSTEAD. That would require the consent of a large percentage of bondholders?

Mr. ROOSEVELT. It also requires, unless you have recently amended it, the consent of the stockholders; but in spite of the fact that the stockholders are not going to get one nickel under any reorganization plan of any kind that I have seen in this picture, in August or September of 1934 they were willing to give their consent to that action.

Senator SHIPSTEAD. If you reorganize the road, based on what it would sustain—I mean capital—that is, all earnings would sustain—how much do you think you could save for the bondholders for what they have invested in the road?

Mr. ROOSEVELT. I have estimated that the value of the new company would be approximately $18,000,000 in this theoretically, ordinarily poor year that I have presumed. I have also stated that it was not beyond the bounds of possibility, though admittedly optimistic, that we might in a boom year earn net, available for interest and dividends, $3,000,000. If we did that, probably it would be at a time when security prices were booming, but certainly we will have to assume a rate of better than 10 times earnings for what the securities might sell for. If you earn $3,000,000 a year and you capitalize that at 12 times the earnings, the property which the bondholders would receive in exchange for their present pieces of paper would have a value of $36,000,000.

Senator SHIPSTEAD. Let us take the first estimate, to be conservative.

Mr. ROOSEVELT. I should much rather do so.

Senator SHIPSTEAD. The bondholders under the plan of reorganization would get the difference between $3,000,000, what they get now, and the $18,000,000, or $15,000,000.

Mr. ROOSEVELT. There would be $15,000,000 more for the bondholders.

Senator SHIPSTEAD. Under this plan they get $3,000,000. It is not only affecting the bondholders. Under this application you would be giving what the bondholders would receive, the $18,000,000 to the owners of the associated railroads.

Mr. ROOSEVELT. That is the only way I can look at it.

Senator MURPHY. From your knowledge, how much does the Minneapolis & St. Louis owe the R. F. C.?

Mr. ROOSEVELT. They do not owe the R. F. C. a nickel. We do owe the Government some money left over from war time, approximately $2,000,000, but that was borrowed under the old 1920–21 set-up.

Senator MURPHY. Can you say of your own knowledge whether it is true that R. F. C. has loaned approximately $90,000,000 to the railways that make up the associated railways?

Mr. ROOSEVELT. I have not checked that figure. I would not be surprised if it were very nearly accurate.

Senator MURPHY. In any event, you would say that they have lent money to these railways?

Mr. ROOSEVELT. To certain of them.

Senator BENSON. There are also pending certain applications of the same amount from the same railroads?

Mr. ROOSEVELT. I did not know that. Is that correct? That I did not know.

Senator SHIPSTEAD. You stated that if the road had been reorganized in 1921 it would not have had to go into receivership. Will you tell us why?

Mr. ROOSEVELT. Well, excuse me, Mr. Senator; that is not the impression I meant to convey. The impression I meant to convey was that it should have gone into receivership.

Hindsight is better than foresight. I am not blaming the old management in any way. They thought the things were getting better faster than they were. The impression I meant to convey was that the road should have gone into receivership in 1921. I further believe that had it done so, we would have had it out by 1925.

Senator SHIPSTEAD. This $18,000,000 that you estimate the bondholders can get under an honest reorganization would be given to the purchasing railroads. That is what you had in mind when you said the Government agency was taking property from private individuals and giving it to others?

Mr. ROOSEVELT. As a matter of fact, they would get a lot more, because if we reorganize this thing we are going to keep that 4½ million dollars a year pay roll. They are not. The result will be that the net earnings to them will be very much larger. The estimate of a million and a half a year is based upon what the property can earn if assisted. If the associated railroads take this railroad, they will run its trains with the present train crews. They will repair the equipment in their present shops. They will earn very nearly their present gross, and their earnings will be very much less than ours would be under the circumstances.

So, if you capitalize the benefits of the associated railroads under this plan, it is very much greater than to the system as such.

You are putting me in a very embarrassing position as far as my future negotiations are concerned. I say this very reluctantly, because it is not going to make life a bed of roses for me.

Senator SHIPSTEAD. It is not our intention to do that, but I could not conceive in my wildest imagination that when a man who represents owners of property proposes it to be dealt with in this way, if he was asked to come here to say whatever he could say or had to say in defense and protection of those bondholders—I say I could not conceive of a Government agency intimidating or punishing him for that.

Mr. ROOSEVELT. Mr. Senator, the fact is that we catch more flies with molasses than we do with vinegar, and I have had to use some vinegar, and do not like it.

Senator SHIPSTEAD. You have not caught a loan with molasses, have you?

Mr. ROOSEVELT. No, sir.

Senator SHIPSTEAD. That is really what you want?

Mr. ROOSEVELT. Yes, sir.

Senator SHIPSTEAD. That was the intention of Congress in enacting the law creating the R. F. C. It was not intended that it should be used to butcher an industry and create unemployment. It was to sustain employment.

Mr. ROOSEVELT. That was my understanding of it.

Senator SHIPSTEAD. I hope that it has not yet come to pass in this country that a man is afraid to protest against being robbed or that he has to be afraid of a Government agency.

Senator TRUMAN. You said awhile ago, Mr. Roosevelt, that you thought it was probably wrong for New York to pay for relief to backward States——

Mr. ROOSEVELT. I am not an expert on relief. I do not think that that is germane to this inquiry. I should like to talk to you outside about that.

Senator SHIPSTEAD. In view of what you have said, you came here under a subpena, did you not?

Mr. ROOSEVELT. Correct.

Senator SHIPSTEAD. We are very grateful to you for the explanations you have given us.

Mr. ROOSEVELT. I thank you gentlemen.

Senator SHIPSTEAD. I think that we will have to stand adjourned until 10 o'clock tomorrow.

Mr. OLIVER. Before you adjourn, Mr. Chairman, there is in the record of the hearing in Minneapolis matter which bears directly upon the testimony of Mr. Roosevelt and the testimony of Mr. Wright, which, it was suggested, might very properly be put in the record here.

Senator SHIPSTEAD. Do you have it here?

Mr. OLIVER. Yes; I have it here. It will take only 2 or 3 minutes.

Senator SHIPSTEAD. Then you had better put it into this record.

Mr. OLIVER. There appeared at the Minneapolis hearing during the presentation of the case for the Associated Railways, Mr. Howard S. Abbott, who identifies himself as the special master appointed by the court in the Minneapolis & St. Louis Railroad receivership case.

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In response to a question addressed to him by Mr. Peter, representing the Associated Railways, in this language:

Question. Will you state what you have done with respect to executing the order of court in offering for sale the properties of the M. & St. L. Railroad covered by the decree of foreclosure and sale?

Mr. Abbott answered:

Answer. The final decrees fixed no definite date of sale. On May 10, 1934, on its own motion, the court made an order setting September 5, 1934, as the date of sale under the various mortgages foreclosed. At that time the reorganization committee had not quite completed the necessary arrangements enabling them to make a bid, but expected to shortly. On its application the court made an order adjourning the sale until November 12, 1934.

On November 6, 1934 the Guaranty Trust Co. and other trustees filed with the court a joint petition for the adjournment of the sale from November 12, 1934, for a period of not less than 90 days, giving as reasons the following, with others—I am reading now from the petition as filed with the court and as constituting a part of the court records, top paging S974 to S976.

Paragraph 3: "That a plan of reorganization for the said properties is in process of devedopment and substantial progress has been made toward an agreement between all interested parties relative thereto, but that the ability of the reorganization committee appointed to determine upon and secure agreement as to such plan to bid at a sale of the said properties is entirely dependent upon the agreement of the Reconstruction Finance Corporation to make certain substantial loans of money to a reorganization company to be formed for the purpose of taking over said property.

"Fourth: That the Reconstruction Finance Corporation has not yet definitely agreed to make the loans referred to and refuses to make any final decision regarding the matter until such time as it has completely investigated the possibility of certain alternative plans for the reorganization of said properties, which plans have been proposed by it since September 5, 1934; that such investigations will, of necessity, take months time and that, therefore, the reorganization committee will not be prepared on November 12, 1934, or until some definite agreement is reached with the Reconstruction Finance Corporation, to bid for said properties."

That ends the reading from the record. That was put in by Mr. Abbott.

Senator SHIPSTEAD. He testified under oath?

Mr. OLIVER. Yes, sir.

Senator SHIPSTEAD. You were reading from the transcript?

Mr. OLIVER. Yes, sir; from pages 64 and 65 of the transcript.

I direct the attention of the committee to the description of the Associated Railways plan in this letter as being "proposed by it", referring to the Reconstruction Finance Corporation. Throughout the hearing there was an attempt made to find out where this plan did come from, and this letter indicated that the Guaranty Trust Co. understood the plan to have been proposed by the Reconstruction Finance Corporation.

Senator SHIPSTEAD. The members of the committee have requested that further meetings be postponed until next Monday in order to give them time to attend to their regular work, which has been accumulating during these hearings.

We will stand adjourned until 10:30 o'clock on Monday morning.

(Document showing comparisons of operating revenues of Minneapolis & St. Louis Railroad for year ending June 30, 1916, 11-year perior 1924–34, and year ending Dec. 31, 1934, is here printed in the record in full, as follows:)

MINNEAPOLIS & ST. L. R. R.

[000 omitted]

Year ending June 30, 1916	*11-year period, 1924–34*	*Year ending Dec. 31, 1934*
OPERATING REVENUES	OPERATING REVENUES	OPERATING REVENUES
$10,722	$134,532	$7,514
Balance	Balance	Balance
$3,961	$49,095	$2,574
36.9 percent	36.5 percent	34.3 percent
Interest paid	Interest paid	Interest paid
$2,201	$2,739	$149
20.5 percent	2 percent	2 percent
Taxes paid	Taxes paid	Taxes paid
$465	$7,034	$337
4.3 percent	5.2 percent	4.5 percent
Wages paid	Wages paid	Wages paid
$4,095	$75,664	$4,454
38.3 percent	56.3 percent	59.2 percent

(Thereupon, at 12:10 p. m., an adjournment was taken until 10:30 a. m., Monday, May 25, 1936.)

PROPOSED SALE OF MINNEAPOLIS & ST. LOUIS RAILROAD

MONDAY, MAY 25, 1936

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON INTERSTATE COMMERCE,
Washington, D. C.

The subcommittee met at 10:30 a. m., in room 357, Senate Office Building, Washington, D. C., pursuant to adjournment on Friday, May 22, 1936, Senator Henrik Shipstead (chairman of the subcommittee) presiding.

Present: Senators Shipstead (chairman of the subcommittee), Truman, and Benson.

Also present: Senator Murphy.

Senator SHIPSTEAD. The subcommittee will come to order. Mr. McElwee, will you take the stand, please.

TESTIMONY OF JAMES F. McELWEE

(The witness was duly sworn by the chairman of the subcommittee.)

Senator SHIPSTEAD. State your name, your place of residence, and your occupation or business.

Mr. MCELWEE. James F. McElwee, Peoria, Ill., president, Lake Erie Mining Co.

Senator SHIPSTEAD. Are you in the mining business, or manufacturing?

Mr. MCELWEE. Mining.

Senator SHIPSTEAD. And as such do you ship over the Minneapolis & St. Louis Railroad?

Mr. MCELWEE. Not at the present. I did, though, for 26 years.

Senator SHIPSTEAD. Are you familiar with the road and have you been over a long period of years?

Mr. MCELWEE. Yes; since 1899.

Senator SHIPSTEAD. There has been some testimony given here as to the importance of maintaining what is called the Peoria gateway to the East and to the South. We should be very glad to have your opinion as a shipper on the importance of that gateway.

Mr. MCELWEE. As a shipper, I think it is very important to keep it open for rate-making purposes, and I have also been reliably informed that it is a quicker route to the East than the Chicago gateway.

Senator SHIPSTEAD. It has been testified to here, with reference to shipments to the East from the Northwest, from Iowa and from Minnesota, and so forth, that they can save sometimes as much as 12 hours over the congested district of Chicago.

Mr. McELWEE. Yes. One to 2 days, I have been informed by railroad people.

Senator SHIPSTEAD. And it has also been testified that in transfer and switching charges considerable saving can be made?

Mr. McELWEE. Yes, sir.

Senator SHIPSTEAD. Do you think that is true?

Mr. McELWEE. Yes, sir.

Senator SHIPSTEAD. Are you familiar with this application for dismemberment of the Minneapolis & St. Louis Railroad?

Mr. McELWEE. In a general way.

Senator SHIPSTEAD. You are a creditor of this road?

Mr. McELWEE. Yes, sir.

Senator SHIPSTEAD. What is the status of your credit? Are you a preferred creditor?

Mr. McELWEE. I am a preferred creditor. My claim was $88,000, of which I have received 20 percent.

Senator SHIPSTEAD. From what you know of this proposed method of dismemberment and sale, would you give your opinion as to what views you hold about it, or on it? Do you think it is a good plan, or do you think of a better one?

Mr. McELWEE. I would much prefer to see the road operated as a unit, for a number of reasons. One reason is to protect the number of employees who have been there for a number of years, who have priority rights. In the places where the road will be discontinued it is going to deprive those communities of a great amount of taxes, which I think they should not be deprived of. I think the community will receive better service by having the road operated.

Senator SHIPSTEAD. Did you have anything to do with any proposed plan of reorganization at any time?

Mr. McELWEE. No, sir.

Senator SHIPSTEAD. Are you acquainted with Mr. John Barriger?

Mr. McELWEE. Yes, sir; I have met him.

Senator SHIPSTEAD. Have you met him more than once?

Mr. McELWEE. I have met him on two or three occasions. I do not just remember how many.

Senator SHIPSTEAD. Did you meet him on a train at one time around December 18, 19, or 20, 1934?

Mr. McELWEE. No, sir; I met him in Chicago.

Senator SHIPSTEAD. About that time?

Mr. McELWEE. About the 18th or 19th of December 1934. I do not remember the exact date. The reason I know it was about that time, I was going up to Minneapolis. It was the time Mr. Bremner died, and we were going to try to see what we could do about a successor as a receiver.

Senator SHIPSTEAD. And did you discuss this plan of dismemberment with Mr. Barriger at that time?

Mr. McELWEE. Yes, sir.

Senator SHIPSTEAD. Do you know Mr. Herbert F. Horner, of Minneapolis.

Mr. McELWEE. No, sir; I do not.

Senator SHIPSTEAD. Do you recollect of having written a letter to Mr. Horner concerning the conversation you had with Mr. John Barriger concerning this plan of dismemberment?

Mr. McELWEE. Yes, sir.

Senator SHIPSTEAD. Will you look at this letter and see if this is the letter you wrote, and if that is your signature? [Senator Shipstead handed a letter to the witness.]

Mr. McELWEE (after examining the letter). Yes, sir.

Senator SHIPSTEAD. Will you read that letter into the record?

Mr. McELWEE (reading):

On or about December 18, 19, or 20, 1934——

Senator SHIPSTEAD. Who is that letter addressed to?

Mr. McELWEE. Mr. Herbert F. Horner, Chamber of Commerce, Minneapolis, Minn.

Senator SHIPSTEAD. Can you tell me what connection he had with this proposal?

Mr. McELWEE. No; I do not know. I had made the statement very generally and was asked to write him about it.

Senator SHIPSTEAD. Very well; proceed.

Mr. McELWEE (continues reading):

LAKE ERIE MINING CO.,
Peoria, Ill., April 4, 1936.

Mr. HERBERT F. HORNER,
Chamber of Commerce, Minneapolis, Minn.

DEAR SIR: On or about December 18, 19, or 20, 1934—I cannot remember the exact date, but fix these dates, because I was on my way to Minneapolis to attend a meeting of our creditors' committee to try and agree upon the recommending of someone to Judge Booth for appointment as successor to Mr. Bremner; if you can ascertain the date on which Mr. Bremner was buried, it would be the day before—I met Mr. John Barriger, who is connected with the Reconstruction Finance Corporation, in Chicago, and we discussed the death of Mr. Bremner and the possibility of who would be his successor, and also the dismemberment plan.

I was quite appalled at the frankness and the cold-blooded manner in which Mr. Barriger discussed the matter with me. He stated that it was his job, as a friend of Mr. Frederick Prince, of Boston, to see to it that no loan should ever be made by the Reconstruction Finance Corporation to Mr. Frederick Lisman, of New York, for the purchase of the Minneapolis & St. Louis Railroad, but that during his absence on a vacation in Denver, Mr. Jones had promised a loan to Mr. Lisman, provided he could secure the approval of the Interstate Commerce Commission for the purchase of said railroad. He further stated that upon his return it was his job to devise some scheme whereby Mr. Jones' promise of a loan to Lisman could not be carried out and that he originated the scheme of having the Minneapolis & St. Louis dismembered and portioned out to various western lines. He stated that he had a hard job to sell the idea to Mr. Jones but that he had sold it to him and sold it to him in such a manner that no one would ever be able to get Mr. Jones to change his mind or talk him out of putting the deal through.

He said his interest in the matter was for Mr. Frederick Prince to get possession of the Minneapolis & St. Louis Railroad at a purchase price of $3,000,000, and that if Prince were able to secure the road at that price he would come out whole in the investments which he had in the Minneapolis & St Louis.

I stated to Mr. Barriger that it would take more than $3,000,000 to purchase the road; that $3,000,000 would only take care of the Merriam Junction and Albert Lea bonds, the receivers' indebtedness, and certain special allowances which the court would make, and that it would leave no amount for the preferred creditors. Mr. Barriger replied that he was well aware of the fact that $3,000,000 would not provide any money for the preferred creditors, and that he had no interest whatever in the preferred creditors and was only looking out for Mr. Prince's interest, and that he wanted Mr. Prince to come out whole in the matter, and the only way by which Prince could come out whole was by purchasing the road for $3,000,000; that he did not care what became of the preferred creditors, and it was his opinion that they were not entitled to receive any money on their claims; that they had been without their money for over 10 years and should have adjusted themselves to their losses in that period of time.

In all my experience I have never heard anyone as cold-blooded as Mr. Barriger was about this matter and the brazen manner in which he stated that his sole interest was to protect Mr. Prince.

Very truly yours,

JAS. F. McELWEE.

Mr. SHIPSTEAD. Mr. McElwee, you said you were a preferred creditor?

Mr. McELWEE. Yes, sir.

Senator SHIPSTEAD. And you were naturally quite concerned about this statement?

Mr. McELWEE. I certainly was.

Senator SHIPSTEAD. It would have left your credits without any chance of liquidation? You would have been deprived of what you considered your property as a preferred creditor?

Mr. McELWEE. Yes, sir. Our preferred claim would not have been taken into consideration. In those claims 90 cents of every dollar was for labor, so that there was very little profit in it for us.

Senator SHIPSTEAD. Can you state what the road owed you?

Mr. McELWEE. Yes. They owe me a little over $70,000 at the present time and have owed me this since prior to July 23, 1923.

Senator SHIPSTEAD. Something over $70,000?

Mr. McELWEE. Yes, sir. Our original claim was something over $88,000, on which we have received a dividend of 20 percent. I do not know the exact figures. It will be a little bit over $70,000.

Senator SHIPSTEAD. Did Mr. Barriger explain to you in detail how this plan was originated and for whose benefit it was originated?

Mr. McELWEE. Well, he stated that he had originated the dismemberment scheme in order to defeat the promise of a loan which had been made by Mr. Jones of, I think, four and three-quarter million dollars for the purpose of reorganization. This loan was promised to Mr. Lisman.

Senator SHIPSTEAD. Did you know at that time that he was working for the R. F. C. and in charge of the railroad division?

Mr. McELWEE. Yes, sir; but my understanding was that he had also at one time worked for Mr. Prince, and he also stated in the conversation that Mr. Prince and Mr. Lisman were bitter enemies.

Senator BENSON. Who is Mr. Prince?

Mr. McELWEE. Frederick Prince, of Boston. But his whole interest, he said, was to protect Mr. Prince to get the road at $3,000,000 in order that he could get out whole.

Senator SHIPSTEAD. Is Mr. Lisman the same Mr. Lisman that is a member of the executive committee of three, including Mr. Philip Roosevelt and Mr. Colpitts?

Mr. McELWEE. Yes; he is. Frederick Lisman, of New York.

Senator SHIPSTEAD. They represent the first-mortgage bondholders, except the Albert Lea division?

Mr. McELWEE. Yes; I think that is true. I know Mr. Lisman figured in a reorganization at the time and had several meetings with our committee at the time he had the promise of the loan.

Senator SHIPSTEAD. He did not say anything about what effect this would have on labor, or did he?

Mr. McELWEE. We did not discuss that.

Senator SHIPSTEAD. It has been testified to here that if this dismemberment plan goes through there will be 1,800 to 2,600 men laid off. Is that your opinion? Are you familiar enough to pass an opinion on that?

Mr. McELWEE. Well, I could not qualify as an expert, but it would seem to me if the road was dismembered and portioned out to the various lines that many of the people would be laid off. Many of the old employees would lose their seniority rights and they are too old now to work for other railroads. They are not taking on people at their age.

Senator SHIPSTEAD. May I ask you this question? You do not have to answer it if you do not want to. You realize that the Reconstruction Finance Corporation was organized by act of Congress to lend money to distressed industry and to help industry maintain employment?

Mr. McELWEE. That is my understanding.

Senator SHIPSTEAD. And for that purpose, to accomplish these purposes, they were endowed with public funds to loan for that purpose?

Mr. McELWEE. Yes, sir.

Senator SHIPSTEAD. If these funds are loaned for the purpose of butchering up a railroad like this and laying all these people off, it would be your opinion that the money was not being used for the purpose for which it was given to the R. F. C., and it is not within the intention of Congress that money should be loaned for that purpose? Do you think that this is a perversion of the functions granted to the R. F. C.?

Mr. McELWEE. It is my opinion that any reliable reorganization committee should have an equal chance to get a loan.

Senator SHIPSTEAD. And you agree that the preferred creditors should get first consideration under such a reorganization?

Mr. McELWEE. I think so. I naturally feel that way, being a preferred creditor.

Senator SHIPSTEAD. Well, I am not a creditor, but I feel that way myself.

Mr. McELWEE. We furnished the material, and they could not have operated their railroad during that period of time otherwise, because furnishing that material and keeping the road going as a going industry it was certainly more than an industry that would be discontinued.

Senator SHIPSTEAD. Are there any questions to be asked of the witness?

Senator MURPHY. Mr. McElwee is a sworn witness here, is he not?

Senator SHIPSTEAD. Yes.

Senator MURPHY. This letter was written, Mr. McElwee, about 3 months after your conversation with Mr. Barriger?

Mr. McELWEE. No; practically a year, I guess. My conversation was—I did not notice the date of the letter.

Senator MURPHY. Yes; a year. I see. April 4, 1936.

Mr. McELWEE. My conversation was in 1934.

Senator MURPHY. And your letter recites that your conversation was on one of these dates late in December 1934?

Mr. McELWEE. My conversation was quite generally known, because I was so appalled at the thing that I discussed it quite freely. As a matter of fact, I was shocked at it.

Senator MURPHY. Do you feel, Mr. McElwee, that you sought with absolute fidelity to set down here the words of Mr. Barriger, with absolute fidelity, weighing the consequences of each word that you used?

Mr. MCELWEE. The conversation was such a distinct shock to me that I think it made such an impression upon me that I could repeat it verbatim.

Senator MURPHY. Of course, it puts Mr. Barriger in a very compromising light. He is in charge of the railroads in the Reconstruction Finance Corporation.

Mr. MCELWEE. That is true; but, then, the statement is true and correct. Mr. Barriger made the statement to me.

Senator MURPHY. I just wanted to develop the full import of this letter.

Mr. MCELWEE. I realize that.

Senator MURPHY. As an employee of the Reconstruction Finance Corporation, he is put here in a position of seeking to serve first not the welfare of the Reconstruction Finance Corporation but the interest of Mr. Frederick Prince, of Boston.

Mr. MCELWEE. That is exactly what he stated to me.

Senator MURPHY. And of assuming to himself the task of representing Mr. Prince in this problem rather than to serve impartially the Reconstruction Finance Corporation.

Mr. MCELWEE. I am merely repeating the conversation that passed between us.

Senator MURPHY. It appears in this letter further that whereas Mr. Jones had been satisfied by a presentation of facts presumably made by Mr. Lisman and had committed himself definitely to make a loan to Mr. Lisman, as the result of the influence exercised by Mr. Barriger with Mr. Jones, Mr. Jones reversed his attitude with respect to Mr. Lisman?

Mr. MCELWEE. That is what Mr. Barriger stated to me.

Senator MURPHY. And became a supporter of the plan advocated by Mr. Barriger. I submit, Mr. Chairman, that in view of this letter Mr. Barriger ought to be called before the committee and given an opportunity to make reply to the charges made by Mr. McElwee, because this letter as it stands is an impeachment of Mr. Barriger.

Senator SHIPSTEAD. Mr. McElwee, did Mr. Barriger at that time express to you or discuss with you the facts that this proposed plan of dismemberment must have the approval of the Interstate Commerce Commission?

Mr. MCELWEE. I do not remember that. I knew any plan would have to have their approval. I knew that, but I do not know that we discussed it.

Senator SHIPSTEAD. All right. Thank you.

(Thereupon the witness left the witness stand.)

Senator SHIPSTEAD. The committee will stand adjourned and the committee will hold an executive session.

(Thereupon, at 11 a. m., the committee went into executive session, and at 11:30 a. m. adjourned until tomorrow, Tuesday, May 26, 1936, at 10 a. m.)

PROPOSED SALE OF MINNEAPOLIS & ST. LOUIS RAILROAD

TUESDAY, MAY 26, 1936

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON INTERSTATE COMMERCE,
Washington, D. C.

The subcommittee met at 10 a. m., pursuant to adjournment on yesterday, in room 357, Senate Office Building, Senator Henrik Shipstead (chairman of the subcommittee) presiding.

Present: Senators Shipstead (chairman of the subcommittee), Truman, and Benson.

Also present: Senators Bulow and Murphy.

Senator SHIPSTEAD. The subcommittee will come to order. Mr. Oliver, will you take the stand?

TESTIMONY OF E. L. OLIVER, CINCINNATI, OHIO, RESEARCH DIRECTOR OF THE BROTHERHOOD OF RAILWAY CLERKS—Resumed

(The witness had previously been duly sworn by the chairman of the subcommittee.)

Senator SHIPSTEAD. In testifying the other day, Mr. Oliver, you were testifying as to the unemployment that would ensue if this proposed application went into effect, if dismemberment of the Minneapolis & St. Louis Railroad, as proposed in the application, were to take place. You testified as to the number of men that would be unemployed if that were to occur?

Mr. OLIVER. Yes, sir.

Senator SHIPSTEAD. Are you familiar with an agreement that has recently been jointly signed by the railroad owners and the men employed by the railroads?

Mr. OLIVER. Yes, sir; I am.

Senator SHIPSTEAD. Are you familiar with it so that you can testify as to the probable effect of that agreement of the unemployment on the Minneapolis & St. Louis Railroad if the proposed application shall go into effect?

Mr. OLIVER. If the agreement were to be applied it would do nothing to diminish the volume of unemployment. It would compensate the men who were thrown out of employment as a result of the carrying out of this plan. The agreement between the carriers and the organizations, however, is predicated on the idea that the number of employees to be affected by a consolidation will in any case be a small proportion of the total, and that within a short space of time those thrown out of work will be reabsorbed into the general group still employed on the railroad.

On the Minneapolis & St. Louis Railroad about one-sixth of the present force would be retained and about five-sixths released. It would be impossible for these men to be reabsorbed into the Minneapolis & St. Louis employment.

There is little reason to believe they could be absorbed into the consolidated operations, since as a matter of fact none of the other carriers are absolutely consolidating anything into or with the Minneapolis & St. Louis Railroad facilities, so that while the agreement would provide some degree of compensation, it is not at all adapted to this sort of a case.

In addition to that we are not at all certain that the carriers will accept the application of that agreement to the Minneapolis & St. Louis situation. We believe they should, but there is some possibility that one or more of them may object to such application.

In addition to that we would still be in opposition to the Minneapolis & St. Louis dismemberment, because unless some very real and definite purpose is served by such a project the railway employees naturally prefer to work and be paid wages rather than to be idle and paid anything in the nature of unemployment compensation. In this instance we feel the plan is definitely contrary to the interests of all of the carriers involved, and, of course, especially the Minneapolis & St. Louis. We feel that the railway industry as a whole will suffer from the carrying out of this particular project, and we would oppose it even though it had no effect on the employees.

Senator SHIPSTEAD. You are talking about the application?

Mr. OLIVER. The application of the Associated Railways with respect to the Minneapolis & St. Louis Railroad.

Senator SHIPSTEAD. You were present at the hearings before the Interstate Commerce Commission which were held in Minneapolis?

Mr. OLIVER. I was; yes, sir.

Senator SHIPSTEAD. At which hearings this application was considered and explained by the proponents?

Mr. OLIVER. Yes, sir; I was present.

Senator SHIPSTEAD. Can you tell us from the record just what that explanation was?

Mr. OLIVER. If I may tell you the general outline of the case in general and then give you citations from the record in illustration of the various points. The Associated Railways presented, first, a general statement through Mr. John W. Barriger, 3d, of the Reconstruction Finance Corporation, of the nature of the plan and the reasons for it being advanced, the reasons why it was thought to be in the public interest.

Following Mr. Barriger witnesses appeared representing individual railroads and representing the Associated Railways. They confined their testimony very largely to the effect of the plan upon the railroad they represented. So that the showing of any public interest was largely confined to that made by Mr. Barriger. Mr. Barriger's testimony took up the first 2 days, and he appeared later on in the hearing for further redirect examination.

The general burden of Mr. Barriger's testimony was to the effect that the Minneapolis & St. Louis Railway could not be continued as an independent property, and that the maintenance problem was so serious that if it were continued, or an attempt made to continue it, it would at some time in the future simply fall to pieces.

The general intent of his testimony was that this plan was more nearly in the public interest, in his opinion, than the alternative of leaving the railroad to continue as it is.

In appearing at this hearing Mr. Barriger informed the examiner that he did not officially represent the Commission. He was accompanied by, or there appeared at the hearing for the Reconstruction Finance Corporation, Mr. Clay, who did explain that Mr. Barriger was not officially and formally representing the Commission.

On page 15 of the record Mr. C. M. Clay filed his appearance for the Reconstruction Finance Corporation, and on page 16 stated that—

> The Reconstruction Finance Corporation has not filed an intervening petition. We are appearing for the same reason, to protect our interests.

Later on, at page 26 of the record, Mr. Clay said:

> Well, all that I wish to say, Mr. Examiner, is that Mr. Barriger is not appearing as a witness for the R. F. C., and the conclusions he gives are his own conclusions and are not to be taken as representing the conclusions of the Corporation.

On page 54 of the record, in response to a question which I had raised, Mr. Clay said——

Senator SHIPSTEAD. Who was Mr. Clay?

Mr. OLIVER. Mr. Clay appeared for the Reconstruction Finance Corporation. He filed an appearance as a representative for the Reconstruction Finance Corporation. With respect to the status of Mr. Barriger, Mr. Clay said:

> I thought I had made that clear, and I will do so now. The witness is not speaking for the R. F. C.

Senator SHIPSTEAD. Mr. Clay made that statement?

Mr. OLIVER. Mr. Clay made that statement. Mr. Barriger's appearance in the case was quite clearly that of a proponent. He advocated the adoption of the plan. He argued openly and continually in favor of it. It appeared—and this I wish to sustain by quotations from the record—it appeared that he had become thoroughly convinced of the advisability of adopting this plan—of granting this application. His conviction was so strong that I believe it rendered him incapable of a fair interpretation of such evidence as he had, and of an impartial appearance at the hearing.

Senator SHIPSTEAD. By the way, Mr. Oliver, Mr. Clay, appearing for the Reconstruction Finance Corporation, stated that Mr. Barriger did not appear for the Reconstruction Finance Corporation.

Mr. OLIVER. Not officially.

Senator SHIPSTEAD. Mr. Barriger did not appear officially for the Reconstruction Finance Corporation?

Mr. OLIVER. Mr. Barriger did not appear officially for the Reconstruction Finance Corporation.

Senator SHIPSTEAD. You say he appeared as a witness for the Associated Railways and the proposed plan?

Mr. OLIVER. He appeared as a witness for the Associated Railways. I should like, if I may, to refer to those parts of the record in which he did try to make clear his status. On page 158 of the record he was asked in cross-examination:

> I thought you said yesterday—and if I am wrong I wish to stand corrected—that you said you were here in a wholly neutral capacity?

That question was asked of Mr. Barriger. Mr. Barriger answered:

> Well, if I said that I was in a neutral capacity it means that I am not here in an official capacity, and I am not here as part of the Associated Railways group. I am here, you might say, as an intervener, a personal intervener—in favor of this plan.

At page 255 of the record, again referring to his status at the hearing——

Senator BENSON. What could have been his personal interest in the matter, Mr. Oliver?

Mr. OLIVER. He did not say, but his testimony seems to indicate that he thought the plan was in the public interest.

Mr. Barriger stated at page 255 of the record, and I refer to this as an indication of his attitude throughout the hearing, referring to some figures which were not introduced:

> Why they were not put in, and I endeavored to abbreviate the record and not put in a great deal of material which I thought served no major purpose except to drive in additional nails, I think, to nail down the case that we have been going along with, not that we have any special ability to do so, but I think it is an easy case from our point of view.

Senator SHIPSTEAD. From whose point of view?

Mr. OLIVER. Mr. Barriger's.

Senator SHIPSTEAD. He said "our point of view."

Mr. OLIVER. "Our point of view" I believe indicating his sense of affiliation with the Associated Railways. In any event he said "I think it is an easy case from our point of view."

Senator BENSON. You did not suppose he had in mind his former employer, Mr. Prince, did you?

Mr. OLIVER. I had no reason to believe that he had any other person in mind than the Associated Railways group at the moment.

On page 113 of the record he is referring to maintenance figures. He said:

> It would be very interesting and I hope that the other side will break down their M. E. expense to show that which goes into heavy and to light repairs.

His reference to the opponents of the plan was repeatedly "the other side."

Senator SHIPSTEAD. What is "M. E. expense"?

Mr. OLIVER. Maintenance of equipment. And he referred to the advocates of the plan as "our side."

Senator MURPHY. Pardon me for interrupting you at this point. There is a specific denial by him that he appeared there in behalf of the Associated Railways?

Mr. OLIVER. Yes, sir.

Senator MURPHY. The statement that he was a witness in their behalf is a conclusion reached in your mind from the character of his testimony?

Mr. OLIVER. And from other things which he said. He was not consistent with reference to that point. He stated, and I have a specific quotation from the record which I would like to put in——

Senator SHIPSTEAD. Was he testifying under oath?

Mr. OLIVER. Yes, sir. There was great difficulty on the part of Mr. Barriger in exactly defining his status, and great difficulty on my part at least in understanding what his status was.

Sentor BENSON. How do you suppose he got there? Did he come on his own account, pay his own expenses, or did the Associated Railways pay his expenses, or did the United States Government pay them?

Mr. OLIVER. At one point in the record, for which I have the citation I can read you, Mr. Barriger stated—in fact he stated at more than one point in the record that his expenses and his salary in making his appearance there were being paid by the Reconstruction Finance Corporation, and that the expense of preparing the evidence which he submitted had been paid by the Reconstruction Finance Corporation. The evidence had been prepared by his own staff under his direction.

Senator SHIPSTEAD. His own personal staff, or the Reconstruction Finance Corporation staff?

Mr. OLIVER. The Reconstruction Finance Corporation staff. His staff in the sense only that it was subordinate to him in the Reconstruction Finance Corporation.

Senator MURPHY. You have no knowledge that Mr. McCarl is acquainted with that statement?

Mr. OLIVER. I beg your pardon?

Senator MURPHY. You have no knowledge that Mr. McCarl was acquainted with that statement?

Mr. OLIVER. I have not called it to his attention.

Senator TRUMAN. Were you there in person when this hearing was held?

Mr. OLIVER. Yes, sir; I was.

Senator SHIPSTEAD. You said he appeared there personally and not for the Reconstruction Finance Corporation?

Mr. OLIVER. He said he appeared as a personal intervener.

Senator SHIPSTEAD. And the Government paid his expenses?

Mr. OLIVER. And the Government paid his expenses.

On page 21 of the record appears this quotation, and I should like to preface it by saying that we were in doubt, at least I was, through the hearing what, exactly, had been Mr. Barriger's relation to previous action upon this Minneapolis and St. Louis application for a loan—this application and previous applications made by the Minneapolis & St. Louis. He had said on page 37 of the record:

> The conclusion of the board of directors was that the loan—

that is, referring to a loan which had been previously applied for in 1933 by the receiver of the Minneapolis & St. Louis—

> would not be adequately secured, and the statistical and financial and corporate information which the railroad division gathered together at that time indicated that on the basis of the then record of operations, the capital invested in the Minneapolis & St. Louis had ceased to be self-supporting, or at least the management of the railroad at that time was unable to keep it on a self-sustained basis.

In that quotation he had indicated that the decision was made by the board of directors.

Senator MURPHY. Will you fix the time to which he referred?

Mr. OLIVER. The loan which was applied for in 1933 by the receiver of the Minneapolis and St. Louis is referred to in the question then asked of him.

On page 41 of the record, referring back to that statement, he said:

> I have made the statement earlier that we did not think the loan—I say "we"—I mean I did not think the loan would be adequately secured.

Apparently referring back to the same statement in which he had said that the board of directors had decided the loan would not be adequately secured Mr. Barriger said:

Now I mean I did not think the loan would be adequately secured.

Senator BENSON. What was the amount of that loan?

Mr. OLIVER. That was the loan referred to in the previous testimony here. It was upwards of $4,000,000, according to Mr. Barriger's statement just before.

On page 187 of the record Mr. Barriger said, referring to his exhibit introduced:

Those particular statistics represent a series of statistical tables which were prepared in the Railroad Division of R. F. C. under my own direction within the last 10 days from data which was otherwise there but had not been in that mimeographed form. I had no idea what I was going to be called on to testify respecting. I offered myself, or my services were offered for me or asked for to come out here as a witness.

He was asked:

Who asked you to come.

He answered:

I was authorized to come out here if I so desired by our chairman.

He was asked:

Who asked you to come?

He said:

The Associated Railways.

He was asked:

Before receiving authority from your chairman to come, did you indicate to him and discuss with him the character of the testimony you would offer and the conclusions that you intended to submit?

He answered:

I have never discussed my testimony with the chairman.

He was asked:

You came with his full authority?

And he answered:

I came with his full authority, and he knows that I am here, though I am here as an individual, and I was merely granted the right to come as an individual if I so desired. I told him that I was taking with me records which the R. F. C. had officially, and that I had utilized the service of the Railroad Division in preparing the statistics.

That was as near as we could get to Mr. Barriger's status in appearing at the hearing.

Senator MURPHY. So that we find an officer, or an employee, rather, of the R. F. C., which had made a commitment on this loan subject to the approval of the Interstate Commerce Commission, seeking, with his testimony and with the public records of the R. F. C.—if they are public—to influence the action of another agency of Government, to wit, the Interstate Commerce Commission?

Mr. OLIVER. Yes, sir.

Senator MURPHY. He says, and he repeats there, that he is appearing before the Commission in his personal capacity; that the Chairman of the R. F. C. was fully apprised of his purpose to appear as a witness in the proceedings?

Mr. OLIVER. Yes, sir.

Senator MURPHY. That it was with the approval of the Chairman of the R. F. C. that he was there?

Mr. OLIVER. Yes, sir.

Senator MURPHY. That he was there at Government expense?

Mr. OLIVER. Yes, sir.

Senator MURPHY. Using Government records?

Mr. OLIVER. Yes, sir.

At the hearing, Mr. Barriger referred several times to material which had been prepared and which was in his possession, but which he was not introducing. He said, for example, on page 188 of the record:

Now, I prepared a great many statistical tables. As I say, I had no idea what I was to testify respecting, and it was not until I got here that I realized that any of the testimony that I gave yesterday was going to be called for or desired. I brought out those particular tables in order to be helpful in achieving a purpose which I thought was in the public interest. I brought out anything that I felt somebody or myself might be able to use. Now, the persons to whom I showed it thought much of it was irrelevant, not that it would not help prove our case, but—

And the question was interjected:

Hurt it?

He said:

No, no. They are nothing but the same general type. I would be delighted to see them go into the record if anybody wants them.

It was clear from the paging of the exhibits that Mr. Barriger had introduced that there was a great deal of material prepared but which had been omitted from the exhibit as filed.

Senator SHIPSTEAD. He stated that he had shown that table to other persons, and they had decided that it was irrelevant?

Mr. OLIVER. His exact words were:

Now, the persons to whom I showed it thought much of it was irrelevant.

Senator SHIPSTEAD. Did he say who those persons were?

Mr. OLIVER. He did not; no, sir. Not in that quotation. But his general testimony left no doubt that it was the representatives of the Associated Railways.

Senator MURPHY. And yet the fact is that in his position in the R. F. C., hardly any other living man would be a better judge of what was competent and relevant and material in an exhibit of that kind than he.

Mr. OLIVER. So far as his individual position was concerned, yes; but in view of his prejudice and partiality and bias, I think he was utterly incapable of judging of the competency or materiality or relevancy of any material submitted. I had not seen this material other than that which was introduced, but accepted his general statement that it was irrelevant and immaterial or redundant in the light of material which he had actually introduced.

Our attorney in Washington, Mr. Ezra Brainard, had asked from the Reconstruction Finance Corporation for a copy of the exhibit introduced by Mr. Barriger in Minneapolis, and there was sent to

him not the exact exhibit but the complete, or at least a much more complete set of statistical tables than that which Mr. Barriger had introduced. That was sent to Mr. Brainard with a note appended which reads this way: It is dated April 23, 1935:

To: Hon. Ezra Brainard, Jr.,
716 Jackson Place, Washington, D. C.
From: J. W. Barriger, 3d, Chief Examiner, Railroad Division.

Only about one-third of these sheets were actually presented in evidence, because to have introduced them all and discussed every one would have unduly prolonged my direct testimony.

This larger set of statistical tables was given me after I reached Washintgon; but from the nature of the testimony given in Minneapolis, and from the note attached to it, I think it is inescapable that it was in the possession of Mr. Barriger, and that this material was in Minneapolis at the time he testified there in the hearing. It was this material to which he referred when he said that much of it had been ruled out because it was irrelevant and would not help prove "our case"—"not that it would not help prove our case." Pardon me. That is a misquotation.

Mr. Barriger in his advocacy of the plan—and I do not want to leave any implication that I consider Mr. Barriger to have had any other reason for doing it than his excessive zeal, his effort to prove this application to be——

Senator MURPHY. I think you have made that quite clear for the record.

Mr. OLIVER. But in his evidence he did misstate several very important and, I think, relevant facts.

On page 42 of the record Mr. Barriger refers to the Minneapolis & St. Louis Railroad "with its very thin traffic density, which is probably the thinnest of any comparable railroad in the United States."

As a matter of fact, there are a great many railroads in the United States with thinner traffic density than the Minneapolis & St. Louis. It is impossible to know what is in Mr. Barriger's mind when he says "any comparable railroad", but he did in his exhibit in Minneapolis introduce a large number of comparisons based on six other railroads, including the Great Western, the Soo Line, the Monon, the Wabash, the C. & E. I., and the Alton.

Senator SHIPSTEAD. For what purpose?

Mr. OLIVER. For the purpose of comparing with the Minneapolis & St. Louis.

Senator SHIPSTEAD. In what respect?

Mr. OLIVER. With respect to their general operating picture, their general financial results from operations. There were a great many different comparisons made on the basis of those six railroads.

Of those six railroads, one, the Soo Line, has a traffic density which is almost exactly the same as the Minneapolis & St. Louis, and in fact is probably slightly less. In Mr. Barriger's Exhibit No. 4 there was nothing whatever relative to the traffic density of these various railroads, so that when he made his statement to the effect that the M. & St. L. was probably the thinnest in the United States there was no evidence in his record that he was presenting that would contradict that.

Senator MURPHY. Or that would substantiate it?

Mr. OLIVER. Or that would substantiate it. But in the larger exhibit, or the larger statistical comparisons which he had made, and which, as I say, came into my possession here in Washington, on its page 86 there is a detailed comparison of the traffic density of these several railroads or net ton-miles revenue and nonrevenue per mile of road per annum, and this is under the heading "Traffic Density" in Mr. Barriger's comparison. It shows that for the year 1934 the net ton-miles of the Minneapolis & St. Louis were 466,000; on the Soo Line, 467,000. For the years from 1930 to 1934—and this addition is mine—the net ton-miles on the Minneapolis & St. Louis totals 2,756,000, and on the Soo Line 2,592,000 net ton-miles.

For the entire period from 1921 to 1934 these two railroads had almost exactly the same traffic density.

For the last 6 years, shown on this table, which was then in Mr. Barriger's possession, the M. & St. L. Railroad had substantially—I believe I am correct in saying substantially—higher—at any rate it had definitely higher traffic density than the Soo Line, according to the information which was even then in the possession of Mr. Barriger.

Senator MURPHY. The Soo Line was not cited by Mr. Barriger as a comparable line?

Mr. OLIVER. Oh, yes; it was.

Senator MURPHY. In relation to what?

Mr. OLIVER. In relation to everything that he did make comparisons concerning. He made a great many comparisons in his exhibit 4.

Senator SHIPSTEAD. He did not present the figure as to density of traffic in comparison with the Soo Line?

Mr. OLIVER. No; he did not present that figure.

Senator MURPHY. That is my inquiry. He did not introduce the figure of the Soo Line as to density of traffic?

Mr. OLIVER. No, sir; but he did say that the Minneapolis & St. Louis Railroad had probably the thinnest traffic density of any comparable railroad in the United States.

Senator MURPHY. Have you any other illustrations in substantiation of the point you are stating there than the Soo Line with relation to the traffic density?

Mr. OLIVER. Yes, sir.

Senator MURPHY. Will you develop that, please?

He said there "probably." That would admit of an exception we might assume in a general way in a construction of his statement.

Senator BENSON. Had he introduced that exhibit there would not have been any room for his using the expression "probably" because his own table disproves it.

Mr. OLIVER. I said I had that with me. I am not certain that I have it among the material which I did bring down.

Senator TRUMAN. I think this is developing into a matter which is important enough to justify Congress to remain in session and determine.

Mr. OLIVER. Mr. Chairman, I do not have this table with me, but I have the figures and can present a memorandum showing instances of other railroads over the United States.

Senator MURPHY. As the situation stands, your testimony discloses that Mr. Barriger did not put into the record evidence of railroads

that compare in density of traffic, and you have cited a case of one railroad which has a lesser density of traffic than the Minneapolis & St. Louis Railroad.

Mr. OLIVER. Yes, sir.

Senator MURPHY. His statement was not a positive statement. His statement was that it probably had the lowest density per mile. That is not an absolute statement. I think to establish that point beyond a question, if the record were made to show that the Soo Line was one of three or four lines that had a lesser density than the Minneapolis & St. Louis Railroad, it would better establish the fact.

Mr. OLIVER. I have no difficulty in that.

Senator MURPHY. Is the witness impressed with that conclusion also?

Mr. OLIVER. Yes, sir; I actually have that material.

Senator MURPHY. May I suggest that you supplement that testimony a little bit stronger on that point?

Mr. OLIVER. Yes, sir; I will be very glad to do so.

Senator SHIPSTEAD. For what purpose was this comparison made? Was it to show the amount of business?

Mr. OLIVER. Here is another statement:

> And it was my belief that the Minneapolis & St. Louis Railroad, with its very thin traffic density, which is probably the thinnest of any comparable railroad in the United States, after it had taken in its gross revenues and had paid these fixed transportation charges and expenses, car hire and taxes, it did not have sufficient balance left to keep the property in as good condition at the end of each year as it was in the beginning of the year, even without diverting any funds to payment of service on loans, and that actually, to keep itself running, the Minneapolis & St. Louis Railroad has necessarily been indulging in some self-cannibalism.

Senator SHIPSTEAD. Wait a minute. Would it be right to assume that this comparison was made for the purpose of showing that the M. & St. L. Railroad was undermaintained, in view of the last remark of his testimony?

Mr. OLIVER. That was the whole burden of his testimony, Senator.

Senator SHIPSTEAD. In comparison with other roads?

Mr. OLIVER. Yes.

Senator SHIPSTEAD. Did he introduce any evidence to show that it was undermaintained in comparison with others?

Mr. OLIVER. Yes, sir; he did.

Senator SHIPSTEAD. Have you the record of that?

Mr. OLIVER. Yes. I have noted down several of these points, to which I will come in sequence, and that is among them. I had two or three rather definite points which I think indicated that Mr. Barriger, under the stress of his partiality did not recognize facts. He stated on page 85 of the record:

> I have with me figures for virtually all the principal American railways showing over 1935 compared with 1934 situation, and nearly all of them had a larger increment in gross revenues than 1 percent * * *.

He goes on then to refer back to the Minneapolis and St. Louis Railroad, but his definite statement is that nearly all of them had an increment in gross revenues of more than 1 percent, and he had just indicated that the Minneapolis & St. Louis gross revenue from 1934 to 1935 had increased 1.3 percent. The clear intent of the testimony, as I understood it, was to show that practically all the principal railroads of the United States had shown a greater increase in gross revenue than the Minneapolis & St. Louis Railroad in 1935 and 1934.

Senator TURMAN. Did not the testimony given before our committee show that the increase on the Minneapolis & St. Louis Railroad was greater than on any other railroad?

Mr. OLIVER. I do not think so, Senator, from 1934 to 1935. From 1935 to 1936 the evidence shows that.

In examining that claim of Mr. Barriger's I made two lists of railways, one which includes all class 1 railroads in the United States, as reported by the Bureau of Railway Economics, and a second which shows the principal railways of the United States, as reported by the Interstate Commerce Commission in their printed statement. In that statement referring only to large railroads, and published by the Interstate Commerce Commission, there is a total of 52 railroads. The Minneapolis & St. Louis, with an increase of 1.3 percent, is the same as the St. Louis & San Francisco, and is greater than nine of the other 51 railroads.

Among the railroads with smaller increase than the Minneapolis & St. Louis Railroad is not only the Chicago, Great Western, to which Mr. Barriger referred, but also the Chicago, Rock Island & Pacific, one of the applicants in the hearing, had a decrease of gross revenue from 1934 to 1935 of 0.2 percent. And several other of those principal railroads—inside of the nine showing smaller increases than the Minneapolis & St. Louis Railroad, actually had decreases in gross revenue.

Seventeen percent of the total of these principal railways showed improvement less than the Minneapolis & St. Paul Railroad, or actual diminution in gross revenue.

Taking all class I railroads in the United States, the total number shown on the report of the Bureau of Railway Economics, including the Minneapolis & St. Louis, is 140. Of that 140, 30 had increases in gross revenue less than the Minneapolis & St. Louis Railroad, or actually had decreases. Among those railroads again was the Rock Island, one of the applicants, and a subsidiary of another of the applicants. The Fort Worth & Denver City Railroad, a subsidiary of the Burlington, had a decrease in gross revenue of 3 percent in 1935 compared with 1934.

It seems impossible to me to justify the statement that practically all the principal railways in the United States had greater improvements in gross revenue when, as a matter of fact, 22 percent of the class I railroads had a smaller increase or actual decline in gross revenue in 1935 compared with 1934.

On page 231 of the record Mr. Barriger is discussing the possibility of an improvement in the Minneapolis & St. Louis condition. He said in part:

> If traffic had continued at the 1926, 1927, 1928, and 1929 levels—in 1929 this railroad had a net railway operating income of $1,800,000, I think—we would not be here discussing this plan today.

Then a little further on he said:

> If we had 1929 levels of traffic, some other arrangements would be in order.

The question was asked him:

Well, isn't there a very strong probability that we will have 1929 volume of traffic, with good crops and better conditions?

And he answered:

If you have 1929 volume of traffic, you have also got to have 1929 rates, and we haven't got those in any event.

The question was then asked:

What do you mean—freight rates?

He answered that question:

Freight rates; yes.

He was then asked the question by Mr. Carr:

Just a moment. Have you qualified as a rate man?

He said:

No; I do not qualify as a rate man; but I have enough knowledge about freight rates or the freight revenues which are being earned per ton-mile on American Railways, and we know that they are going down.

My conclusion from that statement was that the net revenue, or the revenue per ton mile on the Minneapils & St. Louis Railroad was diminishing and had diminished in this period from 1926 to 1929 to which Mr. Barriger was referring, but I felt that in view of his general attitude that statement should be checked. I checked the statement and found that it was not accurate.

Later on when I was able to secure or did secure a copy of the evidence which Mr. Barriger had in his possession, among those statements which he did not introduce, page 113 of that compilation, is a statement of the revenue per ton-mile of freight of these various railroads with which he was making comparisons with the Minneapolis & St. Louis. The actual calculations show that the revenue per ton-mile on the Minneapolis & St. Louis in 1934 was higher than the 1926–29 average on the basis of the facts which Mr. Barriger had had prepared in his department.

It shows also that the highest since 1923 was the figure for 1933. It shows that the revenue per ton-mile on freight of the Minneapolis & St. Louis Railroad in 1934 was higher than on the Chicago Great Western, higher than on the Chicago & Eastern Illinois, higher than on the Alton, higher than on the Wabash, higher than on the Monon—the revenue per ton-mile of freight. That was among the sheets not introduced by Mr. Barriger, but which had been prepared, according to his testimony, in his own division, under his supervision.

Senator MURPHY. On the chance that the first part of his statement had relation rather to rates than to earnings per ton-mile, while you are not qualifying as a traffic expert or a rate expert, perhaps you can say from your general knowledge whether there was a decrease in freight rates from 1929 to the period referred to.

Mr. OLIVER. I believe the only way that could be measured, Senator, is through revenue per ton-mile, because in some sections of the country, and on some railroads the effect of various changes might result in a net reduction in rates. On other railroads it might be an increase.

Senator MURPHY. It would vary with commodities also, would it not?

Mr. OLIVER. Yes, sir; and with the proportion of the various commodities hauled on individual railroads.

Senator MURPHY. So that you are brought back necessarily to the revenue per ton-mile?

Mr. OLIVER. Yes; brought back necessarily to the revenue per ton-mile.

Senator SHIPSTEAD. Let me ask you a question which you do not have to answer if you do not feel qualified to answer, and I shall then ask it of someone else. How are the earnings of a railroad figured, by the earnings per ton-mile or the rates?

Mr. OLIVER. The earnings per ton-mile.

Senator SHIPSTEAD. The rate per ton-mile shows what business it gets or what money it earns?

Mr. OLIVER. It shows the money it earns on the unit of business; yes, sir.

Senator BENSON. Mr. Oliver, did Mr. Barriger at any time during his testimony in Minneapolis state whether he had made an inspection trip over the Minneapolis & St. Louis lines?

Mr. OLIVER. He said he had made one; yes, sir.

Senator BENSON. Did he state when it was that he had made this trip?

Mr. OLIVER. He did. My recollection of the time he said was in 1933; in the fall of 1933.

Senator BENSON. Did he testify that he knew anything regarding the present management of the railroad?

Mr. OLIVER. He was not at all critical of the present management. He said he thought they were efficient, I believe, or at least he did not want his remark construed as reflecting on the present management of the railroad.

Senator SHIPSTEAD. One more question, and then you can continue your statement. Did he at any time testify as to the substantial condition of the road since its new management, through the year 1935?

Mr. OLIVER. The substantial condition?

Senator SHIPSTEAD. As relating to the earnings.

Mr. OLIVER. Yes; he did.

Senator SHIPSTEAD. You said you have a statement of that?

Mr. OLIVER. Yes. That is contained later on in the statement—some reference to it.

I have not had an opportunity and I probably would not have time, except over a long period, to check all of the individual statements of fact in Mr. Barriger's evidence. He did venture to incorporate some of the statistical material which he introduced, and I believe here again his bias led him to a misinterpretation of the facts. He stated at several points in the record, notably first I believe on page 89, that the railroad had paid out in 1934 a substantially increased amount of money for car hire. His interpretation of that fact was that because of the undermaintenance of equipment or because of a definite policy of not maintaining equipment, the Minneapolis & St. Louis Railroad had hired equipment from foreign lines.

He compared this policy—the policy which he interpreted these figures to mean—with a policy of repairing train equipment, and

gave the interpretation and the opinion that the policy of using the equipment of foreign lines and paying car rental, which he seemed to think the Minneapolis & St. Louis was following, was much less advisable than the policy of utilizing its own equipment. He based, it seemed to me, all of his conclusions in that regard on the simple fact that in 1935 the railroad had paid more in car rentals to other lines than it had in 1934—a very substantially increased amount.

Senator SHIPSTEAD. In what year?

Mr. OLIVER. In 1935, compared with 1934. As a matter of fact the Minneapolis & St. Louis car rentals even in 1935 showed a smaller proportion to the total revenue of the railroad than four of the six railroads with which Mr. Barriger was comparing the Minneapolis & St. Louis. Of those six railroads only the Soo Line and the Wabash were lower in their proportion of car rentals to total equipment than the Minneapolis & St. Louis. Mr. Barriger introduced that fact in Minneapolis, but in the statement which he had prepared, and of which, as I say, I have a copy, on its page 33 there is that comparison which shows that the ratio of equipment rents on the Minneapolis & St. Louis to total operating revenues was 5.35 percent. On the Chicago Great Western it was 7.9 percent. On the C. & E. I. it was 6.19 percent. On the Alton it was 8.44 percent. On the Monon 5.42 percent. On the Soo Line and on the Wabash of these six railroads the proportion of revenue going for equipment rents alone was lower than on the Minneapolis & St. Louis, but four of the six were higher, and of them two were substantially higher than the Minneapolis & St. Louis.

Senator BENSON. Mr. Oliver, in that complete compilation are the pages numbered consecutively?

Mr. OLIVER. Well, Senator, when that original exhibit was introduced some of the pages given out carried the original page apparently from this larger group of tables.

Senator BENSON. In the larger group of tables are the pages numbered there?

Mr. OLIVER. They were not at the time they were given to me. I have numbered them, and apparently my numbering does not quite agree with the numbering which Mr. Barriger used. I believe he used in some pages—he used the letter A or B; apparently he has a page 35A and 35B, or something of the sort, where I have followed the numbering straight through.

Senator SHIPSTEAD. Well, after 35A or 35B he starts out with another page number?

Mr. OLIVER. With 36, then.

Senator BENSON. Are the pages which he has left out of the smaller tables—are they all in a group or are they taken at random?

Mr. OLIVER. No; they are taken at various places through. I can give it to you.

Senator BENSON. That is not important.

Mr. OLIVER. He has left out of the exhibit which he introduced from pages 21 to 62, inclusive. He included page 63, page 88, pages 90 and 91, pages 93 to 96, inclusive, page 100, page 102, and pages 104 to 109, inclusive, page 114, pages 118 to 120, inclusive.

Senator TRUMAN. Would these pages, if they had been inserted, been favorable for continuing the Minneapolis & St. Louis operations?

Mr. OLIVER. I should like to answer that question, if I may, in my own way, Mr. Senator. When Mr. Barriger began his direct examination I began looking into the statement of fact for the purpose of cross-examining him, and after his testimony was completed I began going into the record for the purpose of making a refutation and rebuttal of Mr. Barriger's evidence. This is before I had seen his complete statement. It is a literal truth that by far the greater part of the material which I had prepared in refutation of Mr. Barriger's actual testimony was actually included in the material which he had prepared but did not introduce.

Senator SHIPSTEAD. In Mr. Barriger's exhibit?

Mr. OLIVER. Yes.

Senator TRUMAN. That is all the answer I need.

Mr. OLIVER. I thought that would illustrate better as an answer to the question you have in mind.

The real situation with respect to this equipment rental on the Minneapolis & St. Louis apparently has grown out of the fact that in 1935 the agricultural situation was not as favorable as it had been in earlier years, and that at the same time there was a revival of industry in other parts of the country, so that while the Minneapolis & St. Louis Railroad handled only about the same total number of carloads of freight, they actually had in 1934 almost exactly the same number of cars loaded on their own lines and received from connections, but in 1935 they had 10,000 fewer originating on their own lines and 10,000 more received from connections.

Now, it is a practice on railroads, of course, to accept cars in interchange, and unquestionably the cars received by the Minneapolis & St. Louis Railroad were very largely the equipment owned by foreign lines, and while that equipment is on the Minneapolis & St. Louis they must pay rental on it, and inevitably there would have to be a very substantial increase in car rentals paid by the Minneapolis & St. Louis because of the difference in the traffic.

Senator MURPHY. The management of the Minneapolis & St. Louis would have nothing to do with that?

Mr. OLIVER. I don't see how they could have avoided it, Senator.

Senator SHIPSTEAD. It would have been cheaper under those conditions to pay rent on a car that came from another line?

Mr. OLIVER. Oh, yes; rather than to have used their own equipment on this traffic received from connecting lines. It must certainly have been.

Senator SHIPSTEAD. He tried to give the impression that this was due to lack of equipment, lack of maintenance, and so forth?

Mr. OLIVER. I believe that is a fair interpretation of what he said—that it was a deliberate policy on the part of the management to avoid repairing its own equipment by renting equipment from foreign lines.

I think it is probably true that to some extent the Minneapolis & St. Louis prefers to receive cars from foreign lines to load traffic destined for those other carriers. I believe their financial condition,

their inability to get financial assistance, has put them in a position where they have not the equipment they should have.

Senator SHIPSTEAD. Their inability to do what?

Mr. OLIVER. Their inability to get financial assistance to put them in a condition where they could get more equipment.

Senator MURPHY. I am not sure as to the statement made with respect to the increase or nonincrease of carloadings originating on its own lines.

Mr. OLIVER. Carloadings on its own lines diminished by 10,000.

Senator MURPHY. While the cars received from other lines increased. The failure to increase carloadings originating on its own lines is a consequence of the drought?

Mr. OLIVER. Yes, sir.

Senator MURPHY. And that would be true of any line operating in an agricultural area of the Middle West, would it not?

Mr. OLIVER. I should say so; but it would depend on what proportion of their originated traffic was agricultural.

Senator MURPHY. There would be a decline in all of the carloadings?

Mr. OLIVER. Yes, sir.

Senator SHIPSTEAD. It is practically known as an agricultural road?

Mr. OLIVER. It does originate a very high proportion of agricultural traffic and livestock; yes, sir.

Senator MURPHY. May I interpose something there? The number of cars taken from other lines was attributable to the greater purchasing power in the agricultural areas as a result of the improved condition of the farmers in the year 1934?

Mr. OLIVER. I think, a very large part of it; yes, sir. There is also some probability that the Minneapolis & St. Louis' solicitation got some business that might in previous years have moved on other railroads.

Senator MURPHY. Of course, there has to be business in order to get business. There was greatly increased tonnage by reason of purchases by the farmers of things to supply their necessities, such as machinery, and all that sort of thing?

Mr. OLIVER. The car-loading figures would indicate that very clearly; yes, sir.

In 1934, the Minneapolis & St. Louis handled 65,416 cars originating on its own line and 66,698 received from other carriers—practically the same number. The number of cars originated was 98 percent of the number received from foreign carriers.

In 1935, the road originated 57,583 caloads of those it handled, and received from connections 76,740. So that the carloads originated were only 75 percent of the number received, which must inevitably have affected the car rentals paid by the railroad. As a matter of fact, however, the rentals received by the railroad had also increased at the same time that the rentals being paid by the road had increased.

These conclusions relative to the movement of traffic were brought to Mr. Barriger's attention in cross-examination, and he was asked if he did not know that industry had prospered, while agriculture, at least in the volume of commodities moved, was still in a depressed

condition—a very seriously depressed condition—and his testimony was to the effect that he would not want to make any statement unless he saw commodity statistics for the year 1935, of the Minneapolis & St. Louis Railroad. Those statistics had been available on the 2d of March, here in Washington.

Senator SHIPSTEAD. This year?

Mr. OLIVER. Yes, sir. His testimony was to the effect that his tables had been produced within 10 days preceding his appearance in Minneapolis. He did have among those tables material which must have come from the annual report—or it seems that it must have come from the annual report—of the Minneapolis & St. Louis Railroad. He must have been able at the same time to get those commodity statistics. Those commodity statistics would have shown him that the volume of agricultural products handled on this railroad had substantially diminished. They would have shown him that the carloads originated on the railroad had declined substantially in comparison with those received, and they would have given him a logical, simple, and favorable explanation of the fact which he sought to interpret as meaning that the railroad had a very unwise maintenance policy in the year 1935.

In testifying with respect to the maintenance of equipment figures, Mr. Barriger used, in exhibit 7, which he introduced, the total amount of money spent by these railroads with which he was comparing the Minneapolis & St. Louis as to maintenance of equipment. The figures showed that in 1934 the Minneapolis & St. Louis had spent only $1,036,000, and the next lowest of these other railroads was the Monon, which had spent $1,056,000.

He showed also the proportion of revenue going to maintenance of equipment, and the outstanding figure in the table was the amount spent for equipment repairs by the railroads. That was in his exhibit no. 6.

He was asked on cross-examination if he did not believe that the amount of money spent for maintenance should be considered in the light of the number of cars that the railroads owned, in view of the fact, obviously, that there are no two railroads that have the same number of cars being repaired. On page 272, specifically, he was asked—

> Now, we have to choose for this purpose—

That is, for the purpose of comparing maintenance of equipment standards—

> between showing total expenditures of equipment repairs on these various railroads or showing expenditures on the per-car or per-thousand-car-mile basis. Do you not believe that the car-mile or the cars-in-service figure is subject to fewer of the kind of qualifications which you actually used, or which your subordinates used?

And Mr. Barriger said "yes", that the repairs per car in service was the more significant, the better figure, subject to fewer qualifications than the one which he had used.

Senator SHIPSTEAD. The total of all?

Mr. OLIVER. The total, regardless of the amount of the equipment.

Senator SHIPSTEAD. The Pennsylvania would spend more than the Minneapolis & St. Louis, and the Baltimore & Ohio would spend more as a total sum?

Mr. OLIVER. Yes.

Senator SHIPSTEAD. They may not have spent so much per car?

Mr. OLIVER. That is exactly right.

Senator SHIPSTEAD. Have you got that comparison?

Mr. OLIVER. I have looked that up in preparation for cross-examination of Mr. Barriger, and I found that of these railroads the Minneapolis & St. Louis actually was spending very much more per car for maintenance than the roads with which it had been compared. The figures, I found, showed that in 1934 the Minneapolis & St. Louis had spent $78 per car; the Great Western, $75; the Soo Line, $49; the C. & E. I., $76; the Alton, $95; the Wabash, $53, and the Monon, $51. Of those six railroads only one, the Alton, paid more repairs per freight car in service than the Minneapolis & St. Louis.

I had gotten those figures independently for the purpose of cross-examining Mr. Barriger, and he admitted on cross-examination that he considered that figure preferable to the one he used; and when I got his complete statement down here, I found out that the comparison included exhibits which he did not introduce in Minneapolis.

Senator BENSON. Would not the repairs per car-mile be even better than the repairs per car?

Mr. OLIVER. I believe they probably would. The form in which it is reported by the Interstate Commerce Commission is car-man-hours per thousand car-miles. I believe that would probably be even better. Even on that basis, I had those figures during cross-examination, and the Minneapolis & St. Louis was spending more, at least in maintenance per thousand car-miles, than these railroads on the average with which it was being compared by Mr. Barriger.

Senator BENSON. Was that information available to Mr. Barriger also?

Mr. OLIVER. It must have been, because it was from the same page as the one from which this information he had was taken. It is on the same page of the same record.

Senator BENSON. Did he give you any testimony as to his qualifications to testify as an operating man?

Mr. OLIVER. Yes, sir; he did.

Senator BENSON. What were his qualifications?

Mr. OLIVER. He had gone through the Pennsylvania Railroad training school, which constitutes a short time spent in each of the various departments of the railroad and in what would otherwise be the type of work ordinarily done by railway employees.

Senator BENSON. Has he held official positions as an operating officer of a railroad?

Mr. OLIVER. Minor positions, minor supervisory positions, and he had actually worked as an employee on the railroad staff. He had also been in the employ of Kuhn, Loeb & Co.

Senator BENSON. They are not operators of railroads, are they?

Mr. OLIVER. They are railway financiers; and with Calvin Bullock & Co., and for some months just preceding his appointment to the Reconstruction Finance Corporation he had been working with Mr. Prince. My understanding of his testimony was that he was not paid by Mr. Prince while he worked with him, but that he was on leave of absence from Calvin Bullock, and they were still paying him.

Senator BENSON. Prince is also an investment banker?

Mr. OLIVER. Yes.

Senator BENSON. Or a financier?

Mr. OLIVER. I think that is probably the best characterization of Mr. Prince. Railway employees have a great many other names that they use in referring to him.

Mr. Barriger, in his direct evidence and in his exhibit on maintenance-of-way expenditures of the Minneapolis & St. Louis Railroad compared with those same railroads, compared them on the basis of what they call equated track miles, and again without any reference at all to the volume of traffic over those rails. He had indicated in direct examination and he said directly in cross examination that the volume of traffic did materially affect the necessary maintenance standards. He was asked on cross-examination [reading]:

> Now, if it is true on one railroad, it is also true as between railroads; that is to say, one railroad with a high traffic density would require for the same standards of maintenance a greater expenditure per mile of traffic than another?

He said [reading]:

> That is correct. With heavier density there would be a heavier maintenance expenditure.

He also stated that he knew the roads with which he had compared the Minneapolis & St. Louis had a much heavier traffic density than the Minneapolis & St. Louis had. He said they were less than the average. Later it developed that three of the six were above the average for traffic density of American railroads.

In the exhibit which Mr. Barriger introduced in Minneapolis there was no reference at all to the traffic density of these various railroads; but on page 86 of the statement which he had had prepared and which he had with him in Minneapolis and from which at least he secured the information which he did introduce, there are traffic-density figures which would show and do show that the Minneapolis & St. Louis traffic is less than half of that of any other of the railroads with which it was compared excepting the Soo Line.

These traffic-density figures, of course, are of the utmost importance in considering the adequacy of any railroad-maintenance program.

Mr. Barriger, on page 53 of the record, made an effort to give a general picture of the financial condition of the railroad. He said on page 53 that—

> The receiver of the Minneapolis & St. Louis, on the basis of this showing, has reported a net credit from the operations over this period of $130,000 per annum.

He said that the receiver in 1935 reported about $45,000, so that if he used the average based on the preceding years it was favorable, rather than to include the 1935 operations. He says [reading]:

> That $130,000 net credit from operations, I would question whether that represented adequate allowance for maintenance was all that the receiver was able to show, for using in the public service about $50,000,000 worth of property based on the Interstate Commerce Commission valuation and the books of original entry, and in relation to any R. F. C. financing, that balance was very small. There was no margin of safety whatsoever. The slightest adverse breath of financial adversity could completely obliterate that.

My understanding of that testimony is, and I believe the impression that he intended to give was, that this $130,000 was all that the receiver was able to show for using in the public service about $50,000,000 worth of property. As a matter of fact, that figure as he

developed it was not net railway-operating income, but was net after the payment of interest charges and other similar charges as were met by the receiver out of net railway-operating income.

The Interstate Commerce Commission uses net railway operating income as the basis for judging of the return on the investment in railway property. Net railway operating income is after taxes but before the payment of any interest charges. Interest charges are a part of the return on the property. This figure of $130,000 is after interest, and it was compared by Mr. Barriger directly with the total value of the property, in spite of the fact that interest on part, at least, of the obligations outstanding had been paid before the $130,000 net was arrived at.

Senator MURPHY. Did you say it was before these fixed charges in the view of the Interstate Commerce Commission?

Mr. OLIVER. Yes, sir.

Senator SHIPSTEAD. What is left after paying the fixed charges is net income?

Mr. OLIVER. Yes.

Senator MURPHY. The Interstate Commerce Commission's net operating income is before fixed charges?

Mr. OLIVER. Net railway operating income is the technical name they have applied to that figure.

On page 51 of the record Mr. Barriger said [reading]:

> The figure of net railway operating income is probably the most important single figure to look at in analyzing a railroad's performance, because that shows the profitableness or unprofitableness of operations, and when the——

He was interrupted there, but he had said that the figure of net railway operating income is probably the most important single figure to look at.

Instead of using the net railway operating income, which he had just said was the most important figure, he substitutes the net credit from operations of the receiver. The net railway operating income, instead of $130,000, would have been on the average $325,000, which makes a very different picture.

In all of Mr. Barriger's exhibits as introduced the net railway operating income appears only on a per-mile basis up to 1934. He does not show the total net railway operating income, nor does he show it for 1935 on any basis. As a matter of fact, the net railway operating income of the Minneapolis & St. Louis increased from $40,000 in 1934 to $100,000 in 1935, with a railroad showing only a 1.3-percent increase in gross. It evidences a pretty good management. The fact that the figure was not here led me to look it up, and I prepared it for introduction in rebuttal, but after receiving Mr. Barriger's statement which he had prepared I found that he had actually had the figure prepared.

On page 34 of the complete exhibit as prepared the net railway operating income of the Minneapolis & St. Louis is shown along with that of the six other railroads, where the Minneapolis & St. Louis had shown, as I said, a substantial increase, in percentage, at least, two of the six railroads had shown substantial decreases in net railway operating income, and none of them had shown the percentage of increase that the Minneapolis & St. Louis Railroad had.

In view of the fact that Mr. Barriger had testified that he considered that the most important single figure, and that figure if introduced would have contradicted the conclusion he reached on gross revenue, and that he had the figure in his possession and did not introduce it, but excluded it as irrelevant, I cannot escape the conclusion that his bias had led him into a state of mind where he was not able accurately to evaluate the figures which he had in his possession.

Senator SHIPSTEAD. Would you say he was biased in the public interest.

Mr. OLIVER. No; in the interest of this particular plan.

On page 79 of the record Mr. Barriger, referring to the maintenance on this railroad, discusses the ballast expenditures. He quotes from a sheet which was not in his exhibit. He said [reading]:

> On my sheet 43 I summarize the ballast expenditure of the Minneapolis & St. Louis.

He was then told by the examiner [continues reading]:

> There is no sheet 43 in this exhibit.

He did not answer it then. He said [continues reading]:

> May I just read into the record that in 1934 the ballast expenditures were $9,000; in 1933, $8,000—

And so on; reading apparently from that sheet 43.

Commenting on it, on page 80, on the amount of expenditures for ballast, he said [continues reading]:

> That is little more than to dust the track with ballast, and to do average maintenance here and there we think does not provide an adequate amount of ballast to provide a firm, continuing structure for the track.

That sheet 43 from which he read and which was not introduced in evidence shows not alone the Minneapolis & St. Louis, but also the six railroads with which it was compared. It shows that ballast expenditures of each of the railroads, in my paging, which is 47 rather than 43—there is a discrepancy somewhere in the paging—it shows the Soo Line among those railroads. The Soo Line ballast expenditures for the entire period covered totaled $598,000. The expenditures for the Minneapolis & St. Louis totaled $322,000. The Soo Line was thus less than twice as great as the Minneapolis & St. Louis. Approximately 86 percent more for ballast spent by the Soo Line; but that line had 160 percent more mileage. So that the actual expenditures for ballast per mile by the Soo Line were substantially less than those of the Minneapolis & St. Louis Railroad. I certainly would have drawn that deduction immediately from this table if it had been introduced. It was among those which were not introduced in Minneapolis. Mr. Barriger must have had it there because he read from that page in his own evidence.

Senator MURPHY. Mr. Barriger in discussing the net railway operating income related that to $50,000,000 as a figure fixed for rate-making purposes by the Interstate Commerce Commission?

Mr. OLIVER. Yes, sir.

Senator MURPHY. Influencing us to think of this railroad as something worth $50,000,000. Yet Mr. Barriger in another notation would have us think of that railroad as having in fact something like $7,200,000 value. That would appear to have some relation to his mental state as being a biased mental state?

Mr. OLIVER. I could not but construe it that way. As a matter of fact, the inquiries I have made indicate that the Minneapolis & St. Louis Railroad's rate of return based on net railway operating income for this period covered by most of Mr. Barriger's exhibits would have been as great on a valuation of approximately $16,000,000 as was the return of all Northwestern railroads.

Senator MURPHY. Mr. Roosevelt testifying here the other day, if I remember the exact language, said it would be a return on a valuation of $18,000,000.

Mr. OLIVER. Yes, sir.

Senator SHIPSTEAD. That is if the road were returned to its owner and operated under present management.

Senator MURPHY. In your figure it would indicate a return on a valuation of perhaps $16,000,000 or $17,000,000?

Mr. OLIVER. I referred not to a particular year, Senator, but to the entire period, which includes 6 depression years, and years that were especially bad for agriculture even before the depression.

Senator MURPHY. They were not reasonably poor years; they were very bad years?

Mr. OLIVER. Yes; and there is every reason to believe that that period of railway history is involved.

Senator BENSON. Agriculture really went into the depression long before the East knew anything about it.

Mr. OLIVER. My interpretation of the figures I have seen on agricultural production and income is that that happened in 1920 and has been practically unrelieved from that time up until very recently. That is when I think agriculture went into the doldrums.

Senator MURPHY. Yes. In 1932 they were not shipping corn; it was cheaper to burn corn as fuel in 1932, on the basis of the price of coal at that time, than to burn coal. Corn up in that country was selling for about 7 cents a bushel. They would ship two carloads to market, and they had to send along a third one to pay the freight, and then may be get a due bill.

In my judgment of what a railroad can do, it is impossible to take as a basis the depression years. You might just as well say of a man, because he has a very bad cold and is lying in bed, that his family ought to call in the undertaker.

Mr. OLIVER. I think that is a very good analogy.

In addition to those errors which I classify as misstatements of fact and those which I classify as misinterpretations of the facts introduced, Mr. Barriger's evidence failed to introduce some very important facts, facts which were significant with reference to the particular investigation being made. He not only left out such figures as repairs to freight cars and the traffic density and the revenue per ton-mile which he had, but the net railway operating income, as I have stated, was also entirely omitted. He did make one oblique reference in cross-examination to the fact that there was a total of $4,500,000 over this period in net railway operating income, but it was made in such a way as not to permit direct comparisons, completely divorced from the other evidence which he had introduced.

Mr. Barriger, on page 95 of the record refers to the operating ratio of the Minneapolis & St. Louis Railway. He said that the Minneapolis & St. Louis Railway had to spend about 90 cents out of every dollar it took in to run its trains and meet such maintenance expenses

as it could afford to make, and that this is a very important ratio to consider and is invariably utilized in a study of a railroad.

In view of the fact that Mr. Barriger had said it was invariably utilized, I undertook to look up what the operating ratio of the railroad was. Mr. Barriger had introduced it in evidence only up to the year 1934. The operating ratio showing up to 1934—that is, in comparison with the preceding year—was not at all favorable to the Minneapolis & St. Louis Railroad; but among the figures which Mr. Barriger had prepared and had not introduced is page 31 of this table as I have had to page it, showing figures for the operating ratios of seven railroads, the Minneapolis & St. Louis and the six with which he compared it, for the period up to and including the year 1935. The significant thing about this table is, or one of the significant things is, that while the Minneapolis & St. Paul lowered its ratio from 90.8 to 88.9 percent, a very favorable showing, a reduction in the operating ratio, the Great Western, the Soo Line, the C. & E. I., the Alton, and the Wabash all increased their operating ratio; that is to say, they were paying out a larger proportion of their revenues for expenses in 1935 than in 1934, while the Minneapolis & St. Louis was paying out a smaller proportion. Of these six railroads only one, the Monon, showed a drop in operating ratio, while the Minneapolis & St. Louis showed a drop of two points, practically, in its operating ratio from 1934 to 1935. The figures that Mr. Barriger introduced stopped at 1934, but he did have the 1935 figures, and they are in this material which came into my possession, as I explained to the committee.

Among the important indexes, in my opinion at least, of the character of the maintenance of a railroad is the ratio of loss and damage to total freight revenue. A railroad that is poorly maintained one would expect would have a large proportion of loss and damage and large proportion of accidents. As a matter of fact, in cross-examining one of the railway witnesses I secured and used the figures on loss and damage ratios of the Minneapolis & St. Louis as compared with other carriers.

Mr. Barriger introduced nothing with respect to loss and damage but among the figures which he had and did not introduce is a table on loss and damage ratios. That appears on page 89 as I have paged it.

The ratio of loss and damage to freight revenue of the Minneapolis & St. Louis is 0.42 of 1 percent. On the Great Western it is 0.75 of 1 percent; on the C. & E. I., 0.78; on the Alton, .64; on the Wabash, 1.43 percent; on the Monon, 43 percent. Only the Soo Line of these six railroads had a lower ratio of loss and damage to total freight revenue than the Minneapolis & St. Louis had. The Soo Line had 0.33 of 1 percent. Every other railroad in this table for the year 1934 showed a higher ratio of loss and damage to freight revenue than did the Minneapolis & St. Louis. I consider that a very good index of the performance of the carrier.

Senator MURPHY. The condition of the roadbed and the rolling stock?

Mr. OLIVER. Yes, sir. That figure was among those which Mr. Barriger had prepared and which were not introduced in Minneapolis.

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Senator MURPHY. I presume there are even worse showings than those you cite?

Mr. OLIVER. I know there are. Some of the applicant railroads in this proceeding show a very much worse figure. In 1934 the Chicago, Burlington & Quincy paid 0.5 of 1 percent of its freight revenues for loss and damage claims.

Senator MURPHY. Is that more than the Minneapolis & St. Louis?

Mr. OLIVER. That is more than the Minneapolis & St. Louis. The Minneapolis & St. Louis was 0.42 of 1 percent. The Great Northern and other Associated Railways paid 0.51 of 1 percent, and the Illinois Central, 0.75 of 1 percent as contrasted with the 0.42 of 1 percent paid by the Minneapolis & St. Louis.

Senator MURPHY. What about the Milwaukee?

Mr. OLIVER. The Milwaukee paid 0.46 compared with the 0.42 of the Minneapolis & St. Louis.

Senator SHIPSTEAD. How many of those railroads are bankrupt now?

Mr. OLIVER. I am not certain, Senator. Several of them are. I am not certain which, or exactly what their status may be. But the loss and damage ratios for the Associated Railways, with one exception—I believe, only one exception—were higher than for the Minneapolis & St. Louis. The average for the Associated Railways together is 0.56 of 1 percent, whereas for the Minneapolis & St. Louis it is 0.42 of 1 percent.

There was no comparison of loss and damage introduced in the evidence of Mr. Barriger, nor of the accidents. I have lately investigated accident statistics. I have got them with me and they show the Minneapolis & St. Louis has a very favorable accident record as compared with the Associated Railways. I consider the accident record to be also an index of the condition of the roadbed and the equipment of the Minneapolis & St. Louis. It is really a very commendable performance in that respect.

Senator MURPHY. And that would indicate a very intimate relationship with loss and damage?

Mr. OLIVER. Yes, sir; it is of the same nature.

My general conclusion with respect to Mr. Barriger's evidence—and I would like to get this before the committee as strongly as I can—is that the resources of the Reconstruction Finance Corporation were made available to the Associated Railways in this case. The amount of money spent, the amount of time and effort spent in the preparation of this complete collection of statistical tables must have been very large. Certainly it is beyond the resources of these railway labor organizations that I represent. It was beyond our resources in the time which would be available to us. They had this representative of a Government agency appearing in Minneapolis, selecting from a mass of material which had been prepared at Government expense, selected on the basis of a very definite bias, excluding from his selection of it that which in my opinion would have been a direct refutation of that which he introduced. That stacks the decks against us, to use a colloquial expression, very strongly. We are not in a position to compete with the United States Government excepting insofar as the Government is going to be impartial. If all of this evidence had been introduced I would not have had to prepare any refutation, because it refutes itself. But when it is necessary for me to assume that a Government employee holding a responsible position is impartial, and that every statement he makes must be investigated with care, that the analysis of the statistical data is beyond the resources that are at my disposal, I cannot check every statement he made, and in view of his bias I would not have accepted his "good morning" without checking it with the Weather Bureau data. That is literally true. We cannot meet that kind of a presentation; and I do not believe it is the proper thing, for a Government employee occupying what I consider to be a responsible position, to appear in hearings of this sort and present evidence on that basis.

Senator BENSON. Mr. Barringer is more than a Government employee in the ordinary use of that term.

Mr. OLIVER. He is something more than a clerk. He is the chief of the railway division of the Reconstruction Finance Corporation.

Senator SHIPSTEAD. And as such he advises the board of directors of the Reconstruction Finance Corporation, and it is necessary that their judgment must depend on his testimony, and their decisions depend upon the facts that he reports to them.

Mr. OLIVER. Yes, sir. He testified that the material he presented to the directors of the Reconstruction Finance Corporation was chosen on the same principle as that which he was presenting to the examiner in Minneapolis; that he had chosen it in the same way, although it was greatly condensed. I do not know what other resources the directors of the corporation may have for independent investigation, nor how much knowledge they may have of the condition of individual railroads, but I should say that the probability is that the decision with respect to the Minneapolis & St. Louis application was probably based very largely upon the material which Mr. Barringer presented to them.

Senator MURPHY. Just as Congress itself has dependence upon committees such as this which make inquiries into matters of this kind.

Mr. OLIVER. Yes, sir; I would think so.

There are several other points in connection with Minneapolis & St. Louis application upon which I would like to present to the committee the position of the railway labor organizations.

We are deeply concerned over the other aspects of the Minneapolis & St. Louis dismemberment proposal which affect the railway labor organizations and the Minneapolis & St. Louis employees as well as all railway employees, very intimately. Some of those I should like to bring to the attention of the committee.

In the first place, we are proposing to introduce in the hearing before the Interstate Commerce Commission evidence as to the effect of this proposal upon employees. If it is allowed to go through we are hoping to be able to get the Interstate Commerce Commission to attach conditions. If it does grant the approval of this plan there are many things that make us a little fearful. The Commission may not feel itself able to extend proper protection to the employees.

The Commission has handed down several decisions upon questions which are closely related to those which have arisen in the *Minneapolis & St. Louis case.* In one case it did rule that the inter-

ests of the employees is a part of the public interest, but with respect to a request which we made in a consolidation in Kansas City of the freight stations of the Kansas City Southern and Chicago Great Western Railways the Commission ruled that in abandonment cases it had no authority to require the protection of employees; and in its forty-ninth annual report from which I believe a quotation was read into the record the Commission asked for authority not only with respect to abandonments but also with respect to other unifications.

Further than that, the Commission in passing on the *Kansas City Southern case* referred to the *St. Paul Bridge and Terminal case* and said that the decision in that case had not yet been gone over by the full Commission, indicating a possibility that even that might be reversed by the Commission's action.

So, while we are hopeful and we believe the Commission should consider the effect upon employees and attach conditions to any approval it may grant which will protect employees against unemployment, we are not at all certain that that will be done under the condition that now exists.

I am not at all certain that railways will be willing—although we are convinced that they should—to consider this proposal. The Commission, under its procedure, has only two alternatives before it. One alternative is to grant the proposal of the Associated Railways. The other is to continue the railway as it is.

All of the other possibilities are barred from consideration here, because they are not in concrete form, and it is my understanding that they are not in concrete form because they were blocked in the Reconstruction Finance Corporation. Those plans are not in concrete form and cannot be introduced and cannot be put before the Commission in the Minneapolis hearings, from my understanding of the rulings made by the examiner in those hearings.

Because of that situation there is serious danger that the Commission may not be able to protect the employees, may not think it has the power to protect the employees, and may feel that rather than to continue the existing situation, the dismemberment should be permitted.

The situation which exists at the present time is a very unfortunate one from the standpoint of passing upon specific cases, such as the Minneapolis & St. Louis. With respect to the railroad itself, the depressed agricultural condition has been referred to. That has naturally had a very great effect upon the volume of traffic. In addition, the management of the railroad has just recently changed and has not had opportunity yet to demonstrate what it can do with this property. There is every reason to believe that these conditions are now changing in a favorable direction; that any decision made a year from now will be much more favorable and can be made in the light of much more nearly normal conditions than a decision which would be made now. We have no certainty that the Interstate Commerce Commission will feel that it has authority to delay action on the basis of any showing which we may make of abnormal conditions. We have no certainty that the Commission would feel that they can say, "We will postpone this decision a year." In the light of the testimony being put in and new legislation governing the Commission's action, it seems possible at least——

Senator SHIPSTEAD. You feel that the employees' interests cannot be protected by the Interstate Commerce Commission?

Mr. OLIVER. I would not state it exactly that way, Senator. We are afraid that the Commission will feel that it cannot protect them. We believe that the Commission should. We believe it can, but it has refused and may against refuse.

Senator SHIPSTEAD. Did you hear the statement or testimony of Mr. Sweet of the Interstate Commerce Commission?

Mr. OLIVER. Yes, sir.

Senator SHIPSTEAD. Did you hear him state that because the road was in receivership instead of in bankruptcy the Interstate Commerce Commission did not have authority to pass upon adequate compensation?

Mr. OLIVER. Yes, sir.

Senator SHIPSTEAD. That that must be decided by the court?

Mr. OLIVER. Yes, sir.

Senator SHIPSTEAD. It is possible to assume that they would take the valuation of Government agencies, like the R. F. C.?

Mr. OLIVER. Yes, sir.

Senator SHIPSTEAD. In view of the history of reorganizations in courts, not reflecting upon the courts at all, Congress furnished another remedy in bankruptcy in the form of section 77–B, where several things are taken into consideration, and among others, the investor. From the testimony that has been given here, are you of the opinion that the people who have put their money into the road have protection that amounts to anything, taking Mr. Roosevelt of the bondholders' committee as being competent to testify on that?

Mr. OLIVER. That would be not only my conclusion from his testimony, but also from the developments in the Interstate Commerce Commission hearings and the general studies of the railroad.

Senator SHIPSTEAD. It has been remarked here by various members of the committee that if a better way than receivership could be found it ought to be adopted. Is it your opinion that the interests of all parties could be better protected under bankruptcy proceedings, under section 77–B, so long as those proceedings take into consideration the final decree of the court and comply with the final decree of the court?

Mr. OLIVER. Yes, sir.

Senator SHIPSTEAD. You stated that the Interstate Commerce Commission will continue its hearings on the 15th?

Mr. OLIVER. Yes, sir.

Senator SHIPSTEAD. And I think you stated that you felt that they might have to continue that hearing. If we should assume that they continue the hearing and carry it to a conclusion, do you feel that some action should be taken in this session of Congress to relieve the Interstate Commerce Commission of any embarrassment that there might be?

Mr. OLIVER. I believe it is imperative that some action be taken at this session of Congress.

Senator SHIPSTEAD. Have you any suggestion to make as to what action should be taken?

Mr. OLIVER. If action could be taken which would stop or delay decision of the Interstate Commerce Commission upon this proposal,

which would permit longer consideration, permit presentation of alternative plans, and permit the development of the economic and industrial situation, I believe that would serve the purpose. I think a resolution calling upon the Interstate Commerce Commission to delay action would be a good thing.

Senator SHIPSTEAD. Action by the Reconstruction Finance Corporation withdrawing from the offer of a loan as they did to the——

Mr. OLIVER. Would accomplish the same thing; yes, sir.

Senator SHIPSTEAD. Have you finished your testimony?

Mr. OLIVER. No, sir.

Senator SHIPSTEAD. How long will it take you to finish?

Mr. OLIVER. A very few minutes, I think. I would like to develop a part of the reason for the attitude of railway labor toward this particular plan.

We are not concerned exclusively with the Minneapolis & St. Louis in this case, because there has been developed a new procedure which we consider very dangerous, not alone from the standpoint of the employees but from the standpoint of the communities served by the railroads and of the railroad investors. We believe that the Interstate Commerce Commission is a body that has developed, over a long period of regulation of railways in which it has been engaged, a technique very well adapted to the general problems. We believe, however, that the Reconstruction Finance Corporation in making decisions is preventing certain plans from reaching the Interstate Commerce Commission until other plans have been acted on, and presenting to the Interstate Commerce Commission only one of several possible alternatives. We believe that threatens the whole structure of railway regulation insofar as it relates to reorganizations. We think that something will have to be done either to make it imperative or make it a requirement that all plans be submitted by the Reconstruction Finance Corporation to the Interstate Commerce Commission, or that they all be approved so far as the Reconstruction Finance Corporation can approve them if security is ample, rather than that the Reconstruction Finance Corporation make decisions.

As Mr. Barriger's testimony indicated, decisions were made upon the basis of the general public interest or the general effect upon employees. The Reconstruction Finance Corporation, if I may judge from the chief of its railway division, is not capable of judging whether one or another plan will best protect railway employees. We believe such decisions should not be made by the Corporation. But if they are to be made by the Corporation, then procedure should be specified which will permit all interested parties to appear and be heard with respect to any such decision. Some change must be made in this proceedure which has been used in the Minneapolis & St. Louis case if the Corporation is to protect the public interest and the interest of the employees and of the communities served by American Railways.

To us it seems that the proper way is to strengthen the Interstate Commerce Commission rather than to increase the dual control of such projects as this.

Senator SHIPSTEAD. The control of finance is the main control, is it not?

Mr. OLIVER. The control of the pocketbook, in the condition of the railway industry at the present time, is an absolute veto power over any reorganization problem. The Reconstruction Finance Corporation has tremendous power in determining what is to happen in the railway industry of the United States. A very large proportion of the mileage of the country is in receivership or bankruptcy. The Reconstruction Finance Corporation will certainly have a great deal to do with determining the basis upon which the mileage will resume normal operation under normal financial set-up.

We believe, if the Reconstruction Finance Corporation is to inject reorganizations or operations of this kind into its financial plans, that it requires some provision for procedure by which interested persons can appear and be heard. Rather, we believe that such projects should be left entirely to the Interstate Commerce Commission, and that the Reconstruction Finance Corporation should not have the authority nor under the responsibility of launching such drastic and, we believe, such wholly fantastic plans of dismemberment and reorganization as are contemplated in this Minneapolis & St. Louis situation.

Senator TRUMAN. Is it your opinion that the Reconstruction Finance Corporation may have been ill-advised in this?

Mr. OLIVER. I think the Reconstruction Finance Corporation was ill-advised, and very ill-advised. I believe this plan is the most muddle-headed and addle-pated concoction that I have ever had any contact with. I can see no justification for it either on the conditions of operation or from the standpoint of the employees or the finances of the railroad.

Senator TRUMAN. Do you think that if it had been properly advised it would not have agreed to such a plan?

Mr. OLIVER. I believe that is right. I think it is a matter of the advice given to the directors of the Corporation.

I have nothing further, except that I would like to say that the following railroads, according to the records of the Interstate Commerce Commission, which were class I railroads in 1934, had a thinner traffic density than the Minneapolis & St. Louis Railroad: Bangor & Aroostook; Canadian National Lines in New England; Detroit & Mackinac; New Jersey & New York; New York, Susquehanna & Western; Pittsburgh, Shawmut & Northern; Long Island, Pennsylvania, Reading & Seashore; Atlanta, Birmingham & Coast; Atlantic Coast Line; Columbus & Greenville; Florida East Coast; Georgia & Florida; Gulf & Ship Island; Mississippi Central; Norfolk Southern; Duluth, South Shore & Atlantic; Spokane International; Green Bay & Western; Lake Superior & Ishpeming; Colorado & Southern; Denver & Salt Lake; Nevada Northern; Northwestern Pacific; San Diego & Arizona Eastern; Burlington-Rock Island; Fort Smith & Western; Louisiana, Arizona & Texas; Midland Valley; Missouri & North Arkansas; Gulf Coast Lines; Oklahoma City, Ada & Atoka; Wichita Falls & Southern.

Senator SHIPSTEAD. Mr. Townsend, how long would it take you to furnish your testimony?

Mr. TOWNSEND. I am at your pleasure, Senator.

Senator SHIPSTEAD. The committee is trying to rush these hearings. Of course, we do not want to shut off any witness. We contemplate adjourning until day after tomorrow, unless you want to get away; or we can continue to hear you now if your testimony will not take you too long.

Mr. TOWNSEND. I was told that there were some questions that you desired to ask, and I have prepared certain exhibits that I wish to submit to the Interstate Commerce Commission, some of which would be very pertinent to this inquiry here. They might be submitted with just a brief statement of what they show. The length of the examination would be at your pleasure. I could talk all day about this matter, because it is one that I am familiar with.

Senator SHIPSTEAD. In order to give you an opportunity to be heard, we will take a recess until 2 o'clock this afternoon. If you will come back at that time we will be very glad to hear you.

Mr. TOWNSEND. Very well, Senator.

(Whereupon, at 12:04 p. m., a recess was taken until 2 p. m. of the same day.)

AFTER RECESS

The subcommittee resumed at 2 p. m.

Present: Senators Shipstead (chairman of the subcommittee), Truman, and Benson.

Senator SHIPSTEAD. We will resume. Hold up your right hand and be sworn, Mr. Townsend.

TESTIMONY OF FRANK B. TOWNSEND, DIRECTOR OF TRAFFIC, MINNEAPOLIS TRAFFIC ASSOCIATION, MINNEAPOLIS, MINN.

(The witness was duly sworn by the chairman of the subcomittee.)

Mr. TOWNSEND. My name is Frank B. Townsend. I appear here under subpena. I am traffic director of the Minneapolis Traffic Association, an organization that Minneapolis maintains, through the Minneapolis Civic and Commerce Association and the Chamber of Commerce of Minneapolis, having charge of traffic and transportation matters for the two business institutions of the city of Minneapolis.

This organization has instructed me to appear before the Interstate Commerce Commission in hearings which are now scheduled to begin on June 15 at Minneapolis, in re Finance Docket 10947, in opposition to the plan of the Associated Railways.

I had prepared a number of exhibits for presentation on June 15, and I have one set of them that I brought along for the purpose of studying them during the time I was away from Minneapolis, and there may be some information in these exhibits which would be helpful to this committee.

Parenthetically, let me say that I have considerable knowledge about this particular railroad——

Senator SHIPSTEAD (interposing). You might just sit down if you wish.

Mr. TOWNSEND. It so happens that in 1892 I started to work as a clerk in the office of the old Iowa Central Railway, which is now a part of the Minneapolis & St. Louis Railroad. I was associated with that company and its predecessor, the Minneapolis & St. Louis Railroad, from 1892 until 1935, in various capacities, mostly in the traffic department, and about 3 years prior to the time when the railroads were placed under Federal control I was elected vice president in charge of traffic of the Minneapolis & St. Louis Railroad.

I continued in that position until the railroads were taken over by the Government during the World War, at which time I was drafted for service with the United States Railroad Administration at Chicago, under Mr. R. H. Aishton, who was regional director of all railroads west of Chicago and west of the Mississippi River. Subsequently the western railroads were divided into three regions, and then I was associated with Mr. R. H. Aishton, who was regional director of the so-called northwestern region and directly operating under the Director General of Railroads, Mr. William G. McAdoo.

On October—well, in October 1919—I was reelected vice president of the Minneapolis & St. Louis Railroad, and continued service with that corporation from that time until March 1, 1920, when the railroads were released from Federal control, and I was vice president of the corporation until the time it was placed in receivership in 1923, when I was appointed chief traffic officer of the railroad, and I continued in that position until July of 1925, when I left the railroad, resigned from my position with it, and took the present position that I hold as traffic director of the Minneapolis Traffic Association.

In connection with studies I have made of the Minneapolis & St. Louis Railroad, based on my previous experience with that railroad, and studies I have made more recently in connection with this proposed plan of consolidating the railroad, I have prepared a number of exhibits. I do not wish to introduce all of them here, but I think one or two might be particularly pertinent to this investigation. They could be explained briefly and submitted for the record. I have with me only one or two copies of each exhibit, which I brought along for the purpose of studying them during the time I was away from Minneapolis, but I assume one copy for your record would be sufficient.

Senator SHIPSTEAD. Can you tell us whether their contents are true and correct, or not?

Mr. TOWNSEND. Yes. They were prepared by me and under my direction, and are true and correct to the best of my knowledge and belief.

Senator SHIPSTEAD. Are they very voluminous?

Mr. TOWNSEND. The exhibits contain many figures, but I need only refer to the results I take it?

Senator SHIPSTEAD. Go ahead.

Mr. TOWNSEND. Do you care to have these identified by giving them exhibit numbers?

Senator SHIPSTEAD. Do you want to put them into our record?

Mr. TOWNSEND. Yes. I will submit copies for the record.

Senator SHIPSTEAD. Very well.

Mr. TOWNSEND. The first tabulation, which your committee reporter has marked "Exhibit Townsend No. 1", I had prepared is a statement showing statistics of the Minneapolis & St. Louis Railroad, income account, from 1923 through to 1935, both inclusive. The exhibit is self-explanatory, and is prepared from the annual reports of the Interstate Commerce Commission, an authoritative source for that particular information.

The only comment I wish to make about this exhibit——

Senator SHIPSTEAD (interposing). We have some in the record now.

Mr. TOWNSEND. This does not duplicate anything that is in the record, if the Senators please.

Senator SHIPSTEAD. All right.

Mr. TOWNSEND. On this exhibit, I have shown railway operating revenues, railway operating expenses, and other expenses incurred by the operating officers of the Minneapolis & St. Louis Railroad since 1923; and the point I wish to make is that for a period of 13 years, which this exhibit covers, there was available for charges an average of $419,843 per year. In other words, I have shown on this exhibit no. 1, a figure which I designate as net income available for charges. That is, a figure which represents the net revenue of the railroad that would be available for paying interest on bonds, or interest on trust-equipment certificates, or interest on unfunded debt; and as I say this exhibit shows, and I have shown this figure for every year, but taking the average of the 13 years, it shows that this railroad has available for interest on bonds and for interest on unfunded debt, which would include equipment-trust certificates, an average of $419,843.

This was available during the period when this railroad had been subjected to about 12 years of most extravagant operation. In other words, it had not been that kind of operation which the Interstate Commerce Commission is supposed to examine when carriers are before them either for increase in rates or for other purposes, and the law requires that properties must be operated efficiently, honestly, and economically.

As I say, during this period of about 13 years the property was not operated very efficiently and certainly not economically. I make this broad statement because in my opinion, based on my long association with this railroad, extending from 1892, I am satisfied this railroad under efficient, economical, and honest operation, not alone could earn all its operating costs and taxes, but could earn a reasonable resturn, something like 3½ or 3¾ percent, on a reasonable bonded indebtedness, say something between 15 and 20 million dollars.

Unfortunately during the last few years this railroad has been subject to the general depression which has affected all railroads, but has also been subject to conditions prevalent in the particular territory it serves, such as crop failures in western Minnesota and South Dakota.

Conditions are more favorable today. I have the last report made by the receiver, weekly report, indicating that moisture conditions in South Dakota and western Minnesota are favorable for this time of year, and that with just the normal precipitation for the balance of this year it will ensure a very good crop in the territory the railroad serves. That will have the effect of increasing its gross revenues, not only by way of revenues derived directly from hauling the products of agriculture, grain, and other products of agriculture, but will result in putting more money into that territory and thus its purchasing power will be increased, and there will be more in-bound material in the shape of various commodities, including building materials needed for the farm and the small communities, which have during the last few years received rather slight attention, because there has not been the money available in the territory for more extensive purchases.

In other words, based upon present crop conditions I predict for this railroad for the next year a more bountiful year in the way of crops, and necessarily a better gross return than it has had in the past.

Parenthetically, let me say that I have no criticism to make of the former management. It was just one of those things that occur in railroad operation. We had gone through a period of Government operation of railroads, under the Director General of the United States, when the whole purpose of railroad operation was to win the war. Extravagant methods of operation were prevalent throughout the entire United States, and some of the things that were inaugurated at that time could not be discontinued promptly after the railroads were returned to corporate control.

Unfortunately the operating officers of this particular railroad were men with no previous experience in handling some of the poorer railroads. They were men who had had more experience with the larger and richer railroads, and they endeavored by rather wasteful methods to bring this railroad up to the standard of some of the larger railroads, a thing that was not necessary for the territory served or the character of traffic handled.

I have estimated from a careful study of operating results, gross earnings, and operating expenses for this period from 1923 to 1935, as shown on exhibit 1, that had this railroad been operated as efficiently and economically and as honestly as it is operated today, it could have readily paid all its obligations during this period of receivership, and the property been turned back to the bondholders.

In other words, the total obligations today that must be met before this property can revert to the bondholders, would be less than 41½ million dollars, including the so-called preferred claims, those claims representing preference by the court, including receiver's certificates, and such obligations as equipment-trust certificates, which necessarily would have to be taken over by any successor to this property. Had it been operated as efficiently during this 13-year period from 1923 to 1935, as it is being operated today, it could readily have paid all those obligations and the property would now be in the hands of the bondholders, to whom it rightfully belongs.

Senator SHIPSTEAD. Do you think it could pay the charges on the funded debt?

Mr. TOWNSEND. I think it could have paid something on the funded debt, but nothing that approximates interest on the present funded debt at the high rate of interest at which those bonds were issued.

Senator SHIPSTEAD. Do you think it could continue to operate and pay current expenses?

Mr. TOWNSEND. I not only think it could continue to operate with its present management and pay all expenses of operation, and taxes, but that it could pay a reasonable return on a limited capitalization. I would suggest that it be fixed at something between 15 and 20 million dollars, and that for the first 5 years those bonds be issued as income bonds rather than as direct interest-bearing bonds, and that with the present management and any kind of average crops in the territory it serves, it could be made to pay a return upon 15 to 20 million dollars.

Senator SHIPSTEAD. Are you familiar with the application of the Associated Railways?

Mr. TOWNSEND. Yes, sir; in a general way. I have studied the application in a general way, and reviewed it, and heard a great deal of the testimony introduced in support of it.

Senator SHIPSTEAD. Have you heard any of the testimony as to what might be saved for the bondholders by means of this proposal?

Mr. TOWNSEND. The testimony introduced at the hearing in Minneapolis was indefinite as to the amount that the Associated Railways were willing to pay for this property. The maximum amount, I believe, that was set up, $7,200,000, is just the amount that it is understood by the application, the Reconstruction Finance Corporation was willing to loan. But it is assumed it would not be necessary to bid in the property at that amount, especially if there are no other bidders. And necessarily the Associated Railways would not bid in the property at that amount unless they were forced to do it by reason of competitive bidding.

If $7,200,000 were bid, and the court received that much for the sale of the property, there would be approximately $2,800,000, just in round figures, that might be redistributed to the bondholders, and that would have to be redistributed under an order of the court by determining which bonds would receive preference and the amount of the allocation.

Senator SHIPSTEAD. In any reorganization or sale of this railroad is it your opinion that those who have been the owners of the road and have invested their money in it should have an equal chance along with anyone in it?

Mr. TOWNSEND. I not only think that, but they, having invested their money over a long period of years—and I was with this property for 35 years, when it continued to pay interest on bonds—and there was a reorganization in 1911, which is the reorganization wherein the Minneapolis & St. Louis Railroad took over the Iowa Central Railroad, and where the bonds of the old Iowa Central Railroad were guaranteed by the Minneapolis & St. Louis Railroad, and when they issued the so-called refunding and extension bonds. At that time the stock was assessed $20 a share. So that, regardless of what the stockholders might have paid originally for the stock—and necessarily they paid something although, in the early days some of it was given as bonuses—there is a very substantial amount that has been paid by the public holding the stock.

I appreciate that under present conditions a reorganization of this property would probably leave nothing for the stockholders, but certainly there is an equity in this property for the bondholders, and that equity represents the difference between its present valuation based on its earning capacity and the amount that the court must pay in final liquidation of this foreclosure proceeding.

Senator SHIPSTEAD. According to your testimony you believe that if the bondholders were to get a chance to reorganize this railroad, and save the railroad as a unit, they would have a fair chance to save from 15 to 20 million dollars of their investment?

Mr. TOWNSEND. Yes, sir; I believe that the property could be reorganized and recapitalized at something between 15 and 20 million dollars. And I suggest that for the first 5 years those bonds might be made income bonds instead of direct interest-bearing bonds, and that the present bondholders—and their bonds are secured by a

mortgage on the present property—would be in a position that their equity in a measure could be preserved. And that would insure the operation of this railroad in the future for the benefit of the public it serves. And I want to explain a little more about the necessity for continuing this railroad in operation as I see it.

Senator SHIPSTEAD. On the other hand, if this plan goes through, in your opinion the bondholders could only save $2,800,000.

Mr. TOWNSEND. I doubt if they would save that much. That would be the maximum amount they could save, distributed over bonds of nearly $50,000,000.

Senator SHIPSTEAD. I understand that under the final decree of the court certain charges will have to be paid by whoever buys the property.

Mr. TOWNSEND. The court has not fixed an upset price. But the court has indicated certain obligations and certain amounts due, including receivership certificates, preferred claims, and such of the general expenses that the court must finally meet, and also that the buyer must assume certain obligations, such as equipment trust certificates that are still unmatured.

Senator SHIPSTEAD. If the bondholders should be given an opportunity to proceed under section 77 (b), under reorganization they would have to have a plan that would comply with the final decree of the court.

Mr. TOWNSEND. Not necessarily complying with the final decree of the court. They would have to have a plan that would meet the approval of the Interstate Commerce Commission. But the court would sell this property at an advertised sale providing the court was satisfied that the amount bid for it was reasonable and was sufficient to take care of all the obligations. You understand of course that the court is only interested in administering the foreclosure proceeding. What becomes of the property subsequent to the sale and the liquidation of the property under the foreclosure proceeding, the court would not be interested in.

But speaking of section 77 (b), of course this railroad is now in receivership under the old law. It would be necessary to convert this receivership into a reorganization proceeding under section 77 (b) of the Bankruptcy Act.

Senator SHIPSTEAD. Well, now, that is very interesting. I have not seen the final decree, but my information is, and I might have misunderstood it, that it provides this railroad should be sold and one thing was specified, and that was that there are certain sums which must be provided to pay certain charges.

Mr. TOWNSEND. Yes.

Senator SHIPSTEAD. If that is so would a reorganization under section 77 (b) have to comply with that?

Mr. TOWNSEND. They would have to comply in that they would have to pay off preferred claims, would have to pay off receivership certificates. They might not have to pay off the Merriam Junction-Albert Lea bonds. That is a first mortgage covering the property from Albert Lea to Minneapolis. That particular bond issue amounts to $950,000, and it is not in foreclosure. It is in default, both as to principal and interest, but the holders of that particular mortgage have not foreclosed. And that bond issue would have

to be taken care of. It has to go to the whole property, and any buyer assuming the property would naturally want to pay off that bond issue in full, both as to principal and interest. Then that property would revert to the second and third mortgages on that property.

Senator SHIPSTEAD. Well, if the railroad should be reorganized by the bondholders under section 77 (b) they would have to have some cash.

Mr. TOWNSEND. Yes, sir.

Senator SHIPSTEAD. And not having cash they would have to borrow it.

Mr. TOWNSEND. And they would have to borrow it. Under present conditions it is not probable they could borrow from any other source except the Reconstruction Finance Corporation.

Senator SHIPSTEAD. Yes; and some of the railroads purchasing this property would have to borrow for the purpose of purchasing.

Mr. TOWNSEND. Some of the railroads are under reorganization under section 77 (b) of the Bankruptcy Act.

Senator SHIPSTEAD. And they have borrowed large sums of money from the Reconstruction Finance Corporation.

Mr. TOWNSEND. They are heavy debtors to the R. F. C.

Senator SHIPSTEAD. Do you think under such a plan of reorganization as you have suggested a loan from the Government would be as safe as would be a loan from the so-called Associated Railways?

Mr. TOWNSEND. I think a loan from the Government to reorganize a company representing the property of the Minneapolis & St. Louis Railroad would be a safer loan from the Government's standpoint than a loan on such properties as the Chicago & Northwestern, the Chicago, Milwaukee, St. Paul & Pacific Railroad, or the Chicago, Rock Island & Pacific, who are now in process of reorganization, and the value of the securities they might offer to the R. F. C., for the loans they secured might be somewhat in doubt at the present time.

Senator SHIPSTEAD. And the Soo Line has borrowed?

Mr. TOWNSEND. They have borrowed, but they are not in process of reorganization under section 77b. They have a rich uncle, the Canadian Pacific Railroad.

Senator SHIPSTEAD. In your opinion under all sense of justice wouldn't it be proper to assume that people who have carried the property all these years, and have paid assessments on stock, if there is any way to save them they should be given a chance?

Mr. TOWNSEND. Every sense of equity and justice would support such a conclusion, and that is my conclusion.

Senator SHIPSTEAD. Now, Mr. Townsend, there has been some testimony brought out here to show the importance of maintaining what is called the Peoria gateway for the benefit of the Northwest and to the East. You being a traffic man do you have anything to offer on that? If so, we would like to hear it.

Mr. TOWNSEND. Yes; I should like to cover that point because it is a particularly interesting point. For the year 1935 there was interchanged through the Peoria gateway, that is, through the Peoria & Pekin Union Railway, 98,510 loaded cars of freight. And that was interchanged between all lines through the Peoria & Pekin Union Railway at Peoria, Ill. The Peoria & Pekin Union Railway is a terminal line operating certain terminals at Peoria, Ill., that handles all interchange at Peoria except between the T. P. & W. Railway, the C. R. I & P., the M. & St. L., and the C. B. & Q. But of those 98,510 carloads interchanged during the year 1935, the Minneapolis & St. Louis Railroad handled 25,006 carloads, or over 25 percent. For the first 4 months of 1936 there were interchanged through the Peoria & Pekin Union Railway at Peoria 39,744 carloads, of which the Minneapolis & St. Louis Railroad interchanged nearly 40 percent.

Senator TRUMAN. What does it cost to make that interchange?

Mr. TOWNSEND. It does not cost the Minneapolis & St. Louis Railroad anything, because the properties to which they interchange at Peoria through the Peoria & Pekin Union Railway owns this connection, and in 1921 I brought a proceeding before the Interstate Commerce Commission which resulted in relieving the Minneapolis & St. Louis Railroad of all interchange expense at Peoria. In other words, the Minneapolis & St. Louis Railroad will start a car of freight from Minneapolis. When they deliver it to the Peoria & Pekin Union Railway at Peoria and that car is delivered to any tenant line of the Peoria & Pekin Union Railway, which includes the Illinois Central, Pennsylvania, New York Central, that railroad being represented by the Cincinnati, Chicago, Peoria & St. Louis Railroad, and including the Nickle Plate Railway, which is a line back over the L. E. & W. In other words, the Interstate Commerce Commission held in that proceeding that an interchange to any tenant line of the Peoria & Pekin Union Railway at Peoria was an interchange to its parent line. So that they were relieved of paying the intermediate switching charge between the Minneapolis & St. Louis Railroad at Peoria and connecting lines.

That arrangement, of course, is very desirable not only for the Minneapolis & St. Louis Railroad, but for other railroads that may take the benefit of that decision. I have not the citation at the moment, but it can be furnished for the record if desired.

My experience has been that the Peoria gateway is one of the best for the interchange of through traffic between the East and the West. It is a gateway where cars may be interchanged more expeditiously than through the Chicago gateway, whether using either the inner or the outer belt lines of Chicago. Cars can be interchanged more expeditiously at Peoria than at St. Louis, or what we may term the upper Lake Michigan interchange points, where the interchange to eastern lines is made through the so-called car-ferry facility operated by such lines as the Ann Arbor and the Pere Marquette.

I have had some experience with this subject. During the period of the World War, when I was with the United States Railroad Administration, one of the particular jobs assigned to me by Mr. R. H. Aishton was the question of moving carload freight between the East and the West, and particularly from the West to the East, because at that time we had thousands of cars going to the Atlantic seaboard for overseas. I then found that the use of the Peoria gateway was not only more economical but it avoided delay. And for that reason in the routing charts that I prepared under

the direction of Mr. Aishton, based on an order issued by the Director General of Railroads, the Peoria gateway was used, because it was the more economical route and the more expeditious route.

Parenthetically, let me say that interchange of traffic between eastern and western lines through the Chicago gateway, if it moves over what we call the outer belt railroad, that railroad absorbs $12.60 of the revenue. There is no absorption of revenue at Peoria as far as the Minneapolis & St. Louis Railroad is concerned or any of the western lines.

Senator SHIPSTEAD. What about the charges east?

Mr. TOWNSEND. The operating expense going through the Chicago gateway means that you must have at least three facilities and sometimes four. In other words, there is no railroad operating from Minneapolis to the East that can deliver direct to the New York Central for movement out of Chicago. They have to go either through the Belt Railway of Chicago, which is a very complicated system of tracks in the interior of Chicago, or they must go over the outer Belt Line, such as the Elgin, Joliet & Eastern Railway. That means a more complicated operation, more train crews, more railroad handling.

And, as I have indicated, out of the through rate, say from Minneapolis to New York, on any carload of freight the Elgin, Joliet & Eastern Railroad would receive $12.60, and $6.30 of that would come out of the revenue of the western line and $6.30 would come out of the revenue of some eastern line.

Senator TRUMAN. And would the shipper get the benefit at Peoria?

Mr. TOWNSEND. No. For the through rate the transportation charges, taking for example from Minneapolis to Cincinnati, Cleveland, or Pittsburgh, or New York, are the same via Peoria as via the Chicago gateway. But the service is frequently more expeditious and more economical to the railroads.

The thing that I deplore about this proposal of the Associated Railways is that in this country you have to have efficiency of operation, and you cannot get efficiency by taking such traffic as the Minneapolis & St. Louis Railroad now handles through Peoria, which amounts to 25,000 carloads, that was last year, and this year will amount to well over 35,000 carloads, you cannot get efficiency if this Minneapolis & St. Louis Railroad is destroyed, as it will be under the plan of the Associated Railways.

And the natural tendency is to divert this traffic to the stronger railroads to and through Chicago. Every car that is handled from east to west or from west to east through Chicago involves a very much greater operating expense, out-of-pocket cost, than would be involved through Peoria. And it would mean the necessary transfer of labor from Peoria over to these congested terminals, and what we are seeking, at least in the West, is diversification of industry, dissemination of industry, getting it away from the large centers to points where they can operate more economically and more efficiently.

In the public interest it would be a mistake to destroy the route of the Minneapolis & St. Louis Railroad through Peoria. From

Minneapolis to eastern territory it is a route that gives better service than to Chicago.

I had an experience with that a few years ago when I had a through merchandise car operating from New York over the D. L. & W. and the Nickle Plate to Chicago, and then through the Belt Line and the Illinois Central, to Albert Lea, and the Minneapolis & St. Louis to Minneapolis. We were not making as fast time as I thought we should make, and I changed the routing of that daily merchandise car from New York to St. Louis and sent it through Peoria, and then the service was very satisfactory, and it was in effect for years afterward.

Senator SHIPSTEAD. If I understand you aright you are very familiar with that territory.

Mr. TOWNSEND. Yes, sir.

Senator SHIPSTEAD. You are familiar with the traffic conditions and the business as it is now and you also have some idea about what that business could be made.

Mr. TOWNSEND. Yes, sir.

Senator SHIPSTEAD. And if I understand the situation that business has increased very much under the present management?

Mr. TOWNSEND. It has increased under the present management due to a very effective policy of solicitation, and that is very noticeable on this railroad. Before the present receiver, Mr. L. C. Sprague, came to this railroad the whole morale of the soliciting organization, and of a large portion of the operating organization, had reached the lowest ebb I ever saw on a railroad. It was due to a combination of circumstances, was due to an unfortunate condition. The men had no spirit in that work, and they were not efficient, were not encouraged. Today every man on that railroad, and I know a large percentage of them because many of them are men who were raised directly under me, under my own tutelage, men I employed as boys and who are still is responsible positions, and I know their families and their history, and I know the views of those men, and have contact with them more or less continuously.

But the morale of those men was destroyed through a number of years of lack of attention. Today they have a wonderful morale on that railroad, not only throughout the operating department but throughout the traffic department. Every man is hitting the ball, and they are getting results. And there is a great field for improving the traffic to be handled over this railroad, not only through traffic but from and to points on the line.

Senator SHIPSTEAD. And you say that improvement is being realized?

Mr. TOWNSEND. Yes. It has been very noticeable during the year 1935. Of course during that year there were conditions that even Mr. Sprague could not overcome. The western part of the line, in Minnesota and South Dakota, had suffered from several years of crop failure. Livestock had been largely taken out of the territory through the policy inaugurated by the Department of Agriculture, and there was very little traffic originating on the line. Necessarily if grain and livestock were not vailable in western Minnesota and

South Dakota the producing power of that territory was at a low edd, and there was but little freight going into that territory. So Mr. Sprague adopted the policy of going out after available through traffic, and by means of an aggressive policy he was able to secure a very substantial increase in that traffic which offset losses along the line.

Conditions along the line are somewhat improved. There is more business in building material. I might say that at Minneapolis the building program inaugurated for this year contemplates over $15,000,000. That means cement from Mason City, Iowa, and stucco from Mason City, Iowa, and lumber and iron and other material that Minneapolis & St. Louis will participate in.

In other words, generally throughout the territory conditions are improved. Prospects for the future are encouraging, and this railroad is in a position now to handle this traffic, and to secure more freight, and to make up for losses on the line until that section can get better crops and until livestock is reestablished in that territory.

I might say this, that the property is giving very excellent service. I have occasion through my office, because I serve every shipper who ships to and from Minneapolis, to know what the service is. The service to Minneapolis and St. Louis is very good.

I also had occasion recently to make an inspection trip over that line. I was surprised by the physical condition of the property as I found it. You will remember that I started on that line when we had 56-pound iron rail from England. We afterward adopted the policy of putting in what we called 70-pound steel rail, 70 pounds to the yard. The standard of this railroad has been increased until it got to 85-pound rail, and then to 90-pound rail, and their new standard is 100-pound rail, and while they have not much of it, they have some, particularly in places where it is most necessary.

It is a much stronger railroad than it was 5 or 10 years ago, and there is no comparison with what it was 20 years ago.

Senator SHIPSTEAD. Do you think it is in much better condition now than it was 15 or 20 years ago?

Mr. TOWNSEND. Oh, in very much better condition, because the standard of its rail is important. It has a heavier rail, and while it has not had much new ballast during the last few years, it has done a thing that the best railroad operation dictates, and that is to use cinder, and cinder is really one of the best ballasts you can get for that kind of territory, unless you can have some kind of crushed rock or large gravel ballast.

Senator SHIPSTEAD. During your experience with the railroad was there a good deal of traffic over its lines?

Mr. TOWNSEND. Yes, sir. I was over the lines of that railroad nearly every month for a great many years.

Senator SHIPSTEAD. And from time to time you paid attention to its equipment, and the condition of its roadway and its maintenance, did you?

Mr. TOWNSEND. Yes, sir.

Senator SHIPSTEAD. And do you think it is in as good condition now as at any time?

Mr. TOWNSEND. It is in better condition today than I have ever seen it. And that is due to the fact that it has heavier steel rails. And where they used to have light gravel ballast, and that was not either economical or effective, they are now using cinder ballast, and cinder ballast is really better than light-gravel ballast.

Its tie renewals have not been up to the standard of some of the larger railroads, but I traveled 1,061 miles by daylight on this railroad within the last few weeks, and I only saw four of what we call broken ties on the whole of the track, and that would be a tie you would know was broken because the end sticks up. But there were a great many new ties, something like 100,000, on the ground ready to be put in the track as soon as the freeze is out of the ground. I assume they have already been placed in the track.

Senator SHIPSTEAD. Let me ask you this question: You said something about the railroad not being able to sustain the capitalization of bonds?

Mr. TOWNSEND. It would never be able again to earn a return upon 46 million dollars of bonds, which it was burdened with at one time.

Senator SHIPSTEAD. Were you with the railroad when it went into the hands of a receiver?

Mr. TOWNSEND. Yes, sir.

Senator SHIPSTEAD. And were you familiar with its financial set-up at that time?

Mr. TOWNSEND. Yes, sir.

Senator SHIPSTEAD. Were there no bonds in default at the time of the receivership?

Mr. TOWNSEND. There were bonds in default, but this is a creditor's bill that brought about this receivership.

Senator SHIPSTEAD. That is what I mean. There were other bills possibly that could not be paid and they forced the road into receivership?

Mr. TOWNSEND. Yes, sir; and with no prospect of paying the interest about due on the bonds.

Senator SHIPSTEAD. And the testimony here is that because of that heavy fixed charge on funded debt the railroad had been under-maintained and was under-maintained at the time of the receivership?

Mr. TOWNSEND. The standard of maintaining a railroad is just like the standard of a rich boy living next door to a poor boy. The poor boy still exists but does not have all that the rich boy has. This railroad has been maintained so that it is safe for operation and gives an excellent freight service.

Through the efficient policy adopted by Mr. Sprague they have discontinued some of their passenger service because not profitable. Freight does not require quite as high-grade track as for the movement of passenger service, but the railroad gives very excellent freight service, and it is not under-maintained at all for the kind of traffic it handles. There may come a time when its traffic will increase, and a time when they will have to have more ties—a greater percentage of renewals—but it is safe for operation today, and is in excellent physical condition.

Senator SHIPSTEAD. If the bondholders should be permitted to protect their property under the same privileges and enjoy the same opportunity to borrow money from the Government as the Associated Railways have, and if a plan should be brought forward under which they could get that money—for instance, a loan such as the Associated Railways are getting—and if they would give a first mortgage to the Government for a period of years—5 or 10 years—with a provision for amortization—a first mortgage in preference to all other liens—and if the bondholders could have bonds to whatever we considered reasonable capitalization to earn or to pay to the bondholders as and when and if earned——

Mr. TOWNSEND. An income bond?

Senator SHIPSTEAD. An income bond that would not have any charge unless it was earned—in other words, that the Government lien would have to be paid and discharged first——

Mr. TOWNSEND. Yes, sir.

Senator SHIPSTEAD (continuing). Before the bondholders could get any——

Mr. TOWNSEND. Yes.

Senator SHIPSTEAD (continuing). Do you think a loan of 5, 6, or 7 million would be a safe loan for the Government to make?

Mr. TOWNSEND. I think it would not only be a safe loan, but I think it would be an excellent loan, and it would not require that much money to take this property out of receivership.

Senator SHIPSTEAD. Have you anything more that you would like to say?

Mr. TOWNSEND. It is just at your pleasure, Senator. I have two or three factors that I would like to indicate, that might be helpful. I can indicate them very briefly.

Senator SHIPSTEAD. How many pages are there?

Mr. TOWNSEND. I do not have it in pages. I do not have any canned testimony.

Senator SHIPSTEAD. How long will it take you?

Mr. TOWNSEND. There are two or three things I would like to mention, if you would care to indulge me for 10 or 15 minutes.

Senator SHIPSTEAD. All right.

Mr. TOWNSEND. I want to mention in connection with the proposed plan that it is suggested that the line from Albert Lea to Fort Dodge be abandoned. That was an amazing and astounding thing to me, because under the plan the Illinois Central is to acquire the line from Albert Lea to Minneapolis. The Illinois Central has an excellent line from Omaha and Sioux City to Fort Dodge. If they took this line from Albert Lea to Fort Dodge, they would have a short route from Omaha to Minneapolis. But there was apparently objection on the part of other companies in the Associated Railways, and they suggested that this very important line through the most productive part of the State of Iowa be abandoned.

I just want to indicate briefly to you what it means to that territory, not only the small communities and some very important towns not served by their railroads, but it means that the direct access from Minneapolis into central Iowa is lost, which would affect business at Minneapolis, because there would be no freight service into that territory in competition with the East-West Lines, from Chicago, Ill.

Another thing, the Minneapolis & St. Louis now has a passenger train from Des Moines to Minneapolis which arrives at Minneapolis at 6:35 in the morning. They are able to put that train into Minneapolis at that hour, first, because in going to the Twin Cities, the Minneapolis & St. Louis reaches Minneapolis first; second, because they have no sleeper accomodations on this train and no necessity of getting a train in around 8 o'clock for the benefit of Pullman car passengers.

This train handles from 12,000 to 15,000 business letters from Central Iowa, from Northern Missouri, and even mail from Oklahoma, Kansas, and Texas into Minneapolis every morning.

That mail is handled in a 30-foot space by the Post Office Department. It is all sorted before it reaches Minneapolis and is available for distribution on the first delivery. It enables merchants, jobbers, and warehouses to fill orders promptly for that day's shipments.

What we are confronted with under the plans of the Associated Railways is having that mail get in several hours later, not in time so that orders for that day can be delivered with dispatch. It means that a substantial part of the jobbing and distributing we do from Minneapolis is going to be transferred to other communities, such as Chicago and Milwaukee. The reason it now comes to Minneapolis is because of the superior mail service offered by this line.

I mention these things because they are in the public interest. One of the things in the law about consolidation of railroads and dismemberment of railroads and abandonment of railroads is that they should be in the public interest. There is nothing in the proposed plan of the Associated Railways that is in the public interest. That is one feature, I think, that is important.

Then, I wanted to mention again, included in the exhibits I have prepared, the statement that some 51 elevators would be left without railroad service.

Senator SHIPSTEAD. Do you mean grain elevators?

Mr. TOWNSEND. Grain elevators throughout Minnesota and the Dakotas. The country elevator is the nucleus for the business in a town. It is the thing that brings the farmer in. He comes in with his grain, brings his family in, and there is the purchasing power.

If you take the railroad away from the elevator, an investment representing 5, 10, 15, or 20 thousand dollars is absolutely of no value there at all.

I have an exhibit showing these elevators that would be left without railroad service, if you desire to have that filed for the record.

Senator SHIPSTEAD. All right; without objection it will be satisfactory to include it in the record.

Mr. TOWNSEND. Then I want to mention also the service of the Minneapolis & St. Louis Railroad from St. Louis to the Twin Cities. That is a very important service operated in connection with the Wabash Railway through Albia, Iowa. The freight service via this route is the best freight service between St. Louis and Minneapolis, as it is the freight service handling all of the perishable fruit, such

as the strawberries and fruit originating in the eastern Arkansas and Mississippi Valley territory. It is the very desirable route to maintain.

Senator SHIPSTEAD. Is that where pretty nearly all the watermelons come from?

Mr. TOWNSEND. Yes; thousands of cars of watermelons are handled in the fall, beginning first with shipments from Georgia, then coming from Tennessee, and then from Arkansas and Missouri.

Southbound that is the desirable route over which to reach St. Louis.

I want to say that there are a great many very valuable routes to the public that would be destroyed under this Associated Railways plan. Necessarily the Chicago, Burlington & Quincy Railroad, which under this plan would acquire the Minneapolis & St. Louis from Peoria to Oskaloosa, Iowa, will not operate that particular part of the line for any freight service. They have stronger and better lines from Peoria to Missouri and from Peoria to the Twin Cities, so that line would naturally dry up. That is one of the very important points as to the plan of the Associated Railways. Sometimes branch lines—sometimes parts to be acquired by other railroads are to be left with no through trackage—in a word, where they would subsist on their local traffic—and the inevitable step in the future is that the acquiring line appears before the Interstate Commerce Commission with an application to abandon that line.

Senator SHIPSTEAD. Then, in your opinion, this proposed abandonment of 550 miles is not the ultimate abandonment to be carried into effect?

Mr. TOWNSEND. No; it is not, and nearly 40 percent of this mileage which will be acquired by other lines will eventually be abandoned, because it will be left without any through traffic, and the eventual step, when the line cannot support itself, will be to abandon it.

Senator SHIPSTEAD. That would be about 400 miles more, or a total of about 950 miles that will ultimately, in your opinion, be abandoned?

Mr. TOWNSEND. Yes; because the lines or the routes that handle both local and through traffic will eventually handle nothing but local traffic—sublines.

Another point I desire to mention particularly, because of the inquiry from Senator Murphy, is the abandonment of certain sections of this line as proposed in the application of the Associated Railways would result in very substantial increases in freight rates on important commodities originating in Iowa.

In Iowa we have a statutory rate, a distance tariff rate, applicable over one line. Where the haul is over two or more lines, 80 percent of the local rates of each line are assessed. Examination of the map—and I assume there is one in the record—shows the proposal for abandonment. If you do not have one, I will be glad to submit this one. Is there a map in the record?

Senator SHIPSTEAD. I think we have it here.

Mr. TOWNSEND. An examination of the map will indicate that from Fort Dodge, Iowa, to Britt, Iowa, the Minneapolis & St. Louis has a direct line. That line is one that is proposed to be abandoned,

although business going from Fort Dodge, Iowa, to Britt, Iowa, would have to go, apparently, over some other line to come back to Britt, Iowa. That would mean a two-line haul, with much larger mileage, and the rates would be substantially increased.

Those are routes used by important manufacturers at Fort Dodge, Iowa, including the manufacturers of so-called gypsum products, used for building materials. Those manufacturers at Fort Dodge compete with similar products manufactured in other States, and their competitive rate relationship would be entirely destroyed. It would be a severe injury to the industry itself.

Another thing I deplore about this proposal is that it takes away from Watertown, S. Dak., an important South Dakota town, a large part of territory to which to distribute merchandise. It absolutely takes away the trade area from Watertown, S. Dak.

I think, Senator, because of your limited time, that that covers the major points I wished to mention.

Senator SHIPSTEAD. We are very grateful to you, Mr. Townsend.

(The exhibits previously referred to are as follows:)

Minneapolis & St. Louis Railroad income account from statistics of railways in the United States—Interstate Commerce Commission

Item	Year 1935	Year 1934	Year 1933	Year 1932	Year 1931	Year 1930
OPERATING INCOME						
1 Railway operating revenues	$7,610,791	$7,514,180	$7,673,398	$7,854,701	$10,294,963	$12,725,671
2 Railway operating expenses	6,763,381	6,823,401	6,747,285	7,444,038	9,297,810	10,827,661
3 Net revenue from railway operations	847,410	690,779	926,113	410,663	997,153	1,898,010
Railway tax accruals:						
4 United States Government taxes	4,159	16,923	16,909	5,654	[1] 15,437	
5 Other than United States Government taxes	286,808	320,939	348,102	511,026	550,056	751,538
6 Total railway accruals	290,967	337,862	365,071	516,680	534,619	751,538
7 Uncollectible railway revenues	4,022	3,640	1,810	3,811	3,187	4,763
8 Railway operating income	552,421	349,277	559,232	[2] 109,828	459,347	1,141,709
11 Net railway operating income	101,621	40,723	281,705	[2] 396,105	111,706	546,695
31 Total nonoperating income	218,991	202,521	193,158	200,451	231,292	276,679
32 Gross income	771,412	551,798	752,390	90,623	690,639	1,418,388
Total deductions from gross income	591,465	450,692	416,737	418,612	491,182	740,646
Net income available for charges	179,947	101,106	335,653	[2] 327,989	199,457	677,742
RAILWAY OPERATING EXPENSES						
Total maintenance-of-way and structures	1,000,300	1,089,135	932,427	1,189,170	1,370,612	1,646,743
Total maintenance of equipment	1,396,834	1,521,784	1,547,272	1,609,816	2,062,242	2,507,176
Total traffic	369,295	264,908	289,209	368,052	441,279	449,363
Total transportation, rail line	3,553,003	3,558,928	3,583,067	3,792,273	4,861,340	5,688,939
Total miscellaneous operations	730	850	803	5,344	9,333	12,396
Total general expenses	450,958	401,900	400,872	488,386	565,829	533,186
Transportation for investment [1]	[1] 7,738	[1] 14,104	[1] 6,365	[1] 9,003	[1] 12,825	[1] 10,142
Total railway operating expenses	6,763,382	6,823,401	6,747,285	7,444,038	9,297,810	10,827,661
Ratio of operating expenses to operating revenues (percent)	88.87	90.81	97.93	94.77	90.31	85.09

Item	1929	1928	1927	1926	1925	1924	1923 [3]
OPERATING INCOME							
1 Railway operating revenues	$14,700,506	$14,450,531	$14,413,217	$14,773,725	$15,074,273	$15,097,126	$16,524,961
2 Railway operating expenses	11,831,007	12,381,983	12,842,315	13,305,390	13,220,168	14,546,992	14,288,791
3 Net revenue from railway operations	2,869,499	2,068,548	1,570,902	1,428,335	1,854,105	550,134	2,236,170
Railway tax accruals:							
4 United States Government taxes		[1] 1,136	45,917	51			
5 Other than United States Government taxes	791,851	790,924	755,462	750,413			
6 Total railway tax accruals	791,851	789,788	709,545	750,464	760,858	726,965	790,884
7 Uncollectible railway revenues	2,222	3,833	3,188	2,979	3,032	18,067	2,489
8 Railway operating income	2,075,426	1,274,927	858,169	674,892	1,090,215	[2] 194,898	1,442,797
11 Net railway operating income	1,867,016	522,277	184,694		363,865	[2] 959,950	
31 Total nonoperating income	292,859	265,256	285,881	327,024	296,626	434,124	457,018
32 Gross income	2,368,285	1,540,183	1,144,050	1,001,916	1,386,841	239,226	1,899,815
Total deductions from gross income	360,250	891,736	835,703	629,766	888,274	932,014	750,528
Net income available for charges	2,008,035	648,447	308,347	372,150	498,567	[2] 692,788	1,149,287
RAILWAY OPERATING EXPENSES							
Total maintenance of way and structures	1,872,555	2,108,293	2,226,011	2,459,003	2,442,591	3,041,870	2,316,413
Total maintenance of equipment	2,507,996	2,816,750	3,144,562	3,284,039	3,256,075	3,854,374	3,809,660
Total traffic	436,064	428,780	429,315	435,363	389,170	337,934	314,081
Total transportation-rail-line	6,456,810	6,503,966	6,510,114	6,615,980	6,571,801	6,777,152	7,325,681
Total miscellaneous operations	9,152	7,989	2,532	2,906	2,775	2,938	3,270
Total general expenses	560,369	526,938	545,935	520,140	566,580	536,941	524,615
Transportation for investment [1]	[1] 11,939	[1] 10,733	[1] 16,154	[1] 12,041	[1] 8,824	[1] 4,217	[1] 4,929
Total railway operating expenses	11,831,007	12,381,983	12,842,315	13,306,390	13,220,168	14,546,992	14,288,791
Ratio of operating expenses to operating revenues (percent)	80.48	85.69	89.10	90.31	87.70	96.36	86.47

[1] Credit.
[2] Debit.
[3] Combined report of Minneapolis & St. Louis Railroad Co. for period Jan. 1 to July 26, and receiver for period July 27 to Dec. 3, 1923. Mar. 31, 1936.

List of elevators located on Minneapolis & St. Louis Railroad stations proposed to be abandoned

[Not including Newton, Montezuma, and Van Cleve branch stations or Algona, Rich Point, and St. Benedict, Iowa]

Station	Number of elevators	Owner	Capacity of elevator (bushels)	Other railroads serving station	Distance to nearest railroad station
SOUTH DAKOTA					
Akaska	1	Akaska Equity Exchange	25,000	None	12 miles to Shelby, S. Dak., Chicago, Milwaukee, St. Paul & Pacific R. R. Co.
Do	1	do	22,000	None	Do
Lowry	1	Lowry Community Elevator Co	40,000	None	12 miles to Alamo, S. Dak., Chicago, Milwaukee, St. Paul & Pacific R. R. Co.
Wecota	1	Wecota Farmers Elevator Co	35,000	None	5 miles to Norbeck, S. Dak., Chicago, Milwaukee, St. Paul & Pacific R. R. Co.
Mellette	1	Farmers Cooperative Elevator Co	15,000	Chicago, Milwaukee, St. Paul & Pacific R. R. Co.	Mellette, S. Dak., Chicago, Milwaukee, St. Paul & Pacific R. R. Co.
Brentford	1	Pacific Grain Co	25,000	None	9 miles to Mellette, S. Dak., Chicago, Milwaukee, St. Paul & Pacific R. R. Co.
Do	1	B. A. White & Son Elevator Co	25,000	None	Do.
Do	1	Farmers Union Grain Co	25,000	None	Do.
Do	1	do	25,000	None	Do.
Adelaide	1	do	20,000	None	5 miles to Conde, S. Dak., Chicago & North Western Ry. Co.
Do	1	do	22,000	None	Do.
Nahon	1	do	25,000	None	7 miles to Aberdeen, S. Dak., Chicago, Milwaukee, St. Paul & Pacific R. R. Co. and Great Northern Ry. Co.
Do	1	Andrews Grain Co	25,000	None	Do.
Stratford	1	Great Western Grain Co	25,000	None	9 miles to Warner, S. Dak., Chicago, Milwaukee, St. Paul & Pacific R. R. Co.
Do	1	Tervey Farmers Cooperative Elevator Co	50,000	None	Do.
Do	1	Farmers Union Grain Co	25,000	None	Do.
Randolph	1	do	20,000	None	6 miles to Verdon, S. Dak., Chicago & North Western Ry. Co.
Do	1	do	25,000	None	Do.
Conde	1	Farmers Elevator Co	20,000	Chicago & North Western Ry. Co.	Conde, S. Dak., Chicago & North Western Ry. Co.
Crandall	1	Eagle Roller Mills	20 000	None	6 miles to Conde, S. Dak., Chicago & North Western Ry. Co.
Do	1	F. J. Cross	20,000	None	Do.
Do	1	do	15,000	None	Do.
Crocker	1	Crocker Farmers Elevator Co	23,000	None	6 miles to Bradley, S. Dak., Chicago, Milwaukee, St. Paul & Pacific R. R. Co.
Do	1	Pacific Grain Co	20,000	None	Do.
Do	1	E. S. Woodworth Elevator Co	18,000	None	Do.
Bradley	1	The Tenney Elevator Co	20,000	Chicago, Milwaukee, St. Paul & Pacific R. R. Co.	Bradley, S. Dak., Chicago, Milwaukee, St. Paul & Pacific R. R. Co.

Wallace	1	Wallace Farmers Elevator Co	30,000	None	8 miles to Bradley, S. Dak., Chicago, Milwaukee, St. Paul & Pacific R. R. Co.
Do	1	Great Western Grain Co	25,000	None	Do.
Do	1	The Tenney Co	25,000	None	Do.
Gardner	1	Great Western Grain Co	25,000	None	3 miles to Watertown, S. Dak., Chicago, Rock Island & Pacific Ry. Co., Great Northern Ry. Co., and Chicago & North Western Ry. Co.
Waverly	1	Farmers Grain & Coal Co	25,000	None	5 miles to Forestville, S. Dak., Great Northern Ry. Co.
Revillo	1	Farmers Elevator Co	41,000	None	3 miles to Albee, S. Dak., Great Northern Ry. Co.
Do	1	Great Western Grain Co	30,000	None	Do.
Strandburg	1	Pacific Grain Co	20,000	None	5 miles to Stockholm, S. Dak., Great Northern Ry. Co.
Troy	1	do	20,000	None	6 miles to South Shore, S. Dak., Great Northern Ry. Co.
MINNESOTA					
Waconia	1	Waconia Cooperative Elevator Co	10,000	None	5 miles to Cologne, Minn., Chicago, Milwaukee, St. Paul & Pacific R. R.
Young America	1	Norwood Farmers Elevator Co	20,000	None	1 mile to Norwood, Minn., Chicago, Milwaukee, St. Paul & Pacific R. R.
Echols	1	Echols Farmers Elevator Co	30,000	None	6 miles to St. James, Minn., Chicago, St. Paul, Minneapolis & Omaha Ry. Co.
Twin Lakes	1	Speltz Grain & Coal Co	15,000	None	6 miles to Glenville, Minn., Chicago, Rock Island & Pacific Ry. Co.
Emmons	1	do	15,000	None	9 miles to Lake Mills, Iowa, Chicago & North Western Ry. Co.
IOWA					
Lake Mills	1	Farmers Elevator Co	20,000	Chicago & North Western Ry. Co.	Lake Mills, Iowa, Chicago & North Western Ry. Co.
Leland	1	Leland Farmers Elevator Co	15,000	None	4½ miles to Neils, Iowa, Chicago, Rock Island & Pacific Ry. Co.
Forest City	1	Farmers Elevator Co	40,000	Chicago, Rock Island & Pacific Ry. Co.	Forest City, Iowa, Chicago, Rock Island, & Pacific Ry. Co.
Britt	1	Farmers Cooperative Co	17,000	Chicago, Milwaukee, St. Paul & Pacific R. R.	Britt, Iowa, Chicago, Milwaukee, St. Paul & Pacific R. R.
Stilson	1	Stilson Cooperative Grain Co	20,000	None	6 miles to Corwith, Iowa, Chicago, Milwaukee, St. Paul & Pacific R. R. Co.
Corwith	1	North Iowa Grain Co	50,000	Chicago, Milwaukee, St. Paul & Pacific R. R.	Corwith, Iowa, Chicago, Milwaukee, St. Paul & Pacific R. R. Co.
Hanna	1	Kunz Grain Co	20,000	None	6 miles to Luverne, Iowa, Chicago & North Western Ry. Co.
Luverne	1	Sanford and Lindebak	25,000	Chicago & North Western Ry. Co.	Luverne, Iowa, Chicago & North Western Ry. Co.
Livermore	1	Farmers Elevator Co	20,000	Chicago, Rock Island & Pacific Ry. Co.	Livermore, Iowa, Chicago, Rock Island & Pacific Ry. Co.
Arnold	1	Critz & Co	35,000	None	4 miles to Livermore, Iowa, Chicago, Rock Island & Pacific Ry. Co., Illinois Central R. R.-Chicago Great Western R. R. Co.
Humboldt	1	Farmers Cooperative Elevator	30,000	None	1 mile to Dakota City, Iowa, Chicago & North Western Ry. Co.
Badger	1	Farmers Elevator Co	35,000	None	10 miles to Fort Dodge, Iowa, Fort Dodge, Des Moines & Southern R. R. Co.-Illinois Central R. R. Co.-Chicago Great Western R. R. Co.
Do	1	Quaker Oats Co	35,000	None	Do.

List of elevators located on Minneapolis & St. Louis Railroad stations proposed to be abandoned—Continued

[Not including Newton, Montezuma, and Van Cleve branch stations or Algona, Rich Point, and St. Benedict, Iowa]

Station	Number of elevators	Owner	Capacity of elevator (bushels)	Other railroads serving station	Distance to nearest railroad station
Fort Dodge	1	do	600,000	Illinois Central R. R.	Fort Dodge, Iowa, Illinois Central R. R. Co.
Otho	1	A. G. Johnson Elevator Co	15,000	None	1½ miles to Roberts, Iowa, Fort Dodge, Des Moines & Southern R. R. Co.
Burnside	1	F. E. Norstrum	20,000	None	5 miles to Lundgren, Iowa, Fort Dodge, Des Moines & Southern R. R. Co.
Dayton	1	Farmers Elevator Co	35,000	Chicago & North Western Ry. Co.	Dayton, Iowa, Chicago & North Western Ry. Co.
South Dayton	1	do	10,000	None	3 miles to Dayton, Iowa, Chicago & North Western Ry. Co.
Pilot Mound	1	Ernest Wolford	20,000	None	2½ miles to Wolf, Iowa, Fort Dodge, Des Moines & Southern R. R. Co.
Ogden	1	Wm. Bakley	13,000	Chicago & North Western Ry. Co.	Ogden, Iowa, Chicago & North Western Ry. Co.
Berkley	1	F. W. Peterson	12,000	None	6 miles to Angus, Iowa, Chicago, Rock Island & Pacific Ry. Co.
Tara	1	Bartwell	40,000	Illinois Central R. R.	Tara, Iowa, Illinois Central R. R. Co.
Moorland	1	J. F. Coady Grain Co	35,000	Chicago Great Western R. R. Co.	Moorland, Iowa, Chicago Great Western R. R. Co.
Callender	1	Callender Grain Co	40,000	None	5 miles to Gowrie, Iowa, Chicago, Rock Island & Pacific Ry. Co.
Do	1	Des Moines Elevator Co	55,000	None	Do.

SUMMARY

Elevators would be left without rail service	51
Elevators at points served by other railroads	14
Total	65

Prepared from records of the Minneapolis & St. Louis R. R. Co.

Senator SHIPSTEAD. The committee will stand adjourned until half past 10 the day after tomorrow, Thursday.

(At 3:15 p. m., an adjournment was taken until 10:30 a. m. Thursday, May 28, 1936.)

PROPOSED SALE OF MINNEAPOLIS & ST. LOUIS RAILROAD

THURSDAY, MAY 28, 1936

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON
INTERSTATE COMMERCE,
Washington, D. C.

The subcommittee met at 10:30 a. m., pursuant to adjournment on yesterday, in room 357, Senate Office Building, Senator Henrik Shipstead (chairman of the subcommittee) presiding.

Present: Senators Shipstead (chairman of the subcommittee), Dieterich, Truman, and Benson.

Also present: Senators Bulow and Murphy.

Senator SHIPSTEAD. The subcommittee will come to order.

Mr. Jones, will you take the stand?

TESTIMONY OF HON. JESSE H. JONES, CHAIRMAN, RECONSTRUCTION FINANCE CORPORATION, WASHINGTON, D. C.

(The witness was duly sworn by the chairman of the subcommittee.)

Senator SHIPSTEAD. You are familiar with the usual formality of the witnesses stating his name, address, occupation, and so forth?

Mr. JONES. My name is Jesse H. Jones; I am Chairman of the Reconstruction Finance Corporation. My address is Washington, D. C. Do I have to tell my age?

Senator SHIPSTEAD. No; that is not necessary. You understand the purpose of this hearing. It is to get some information on the proposed plan of dismemberment of the Minneapolis & St. Louis Railroad. Do you have a statement to make this morning?

Mr. JONES. Senator, I have some memorandums here that I would probably like to read from, and then leave them for the record.

Senator SHIPSTEAD. That is all right.

Mr. JONES. They are too long to read completely.

Senator SHIPSTEAD. We want to give you an opportunity to be heard. We want you to feel free to state what you have to state.

Mr. JONES. I will read from my memorandums.

Senator SHIPSTEAD. That is all right. Are you familiar with the record that has been made here?

Mr. JONES. Not entirely, Mr. Chairman. My main purpose is to just give you the record of the Reconstruction Finance Corporation with regard to this proposition; and such of the testimony that has been presented that I am familiar with I will touch on somewhat.

On March 22, 1932, the receiver of this road made an application to the Interstate Commerce Commission for a loan of $3,898,000.

The Interstate Commerce Commission approved all but $1,200,000. Our board declined the loan.

I find that on September 29, 1932, our secretary advised the receiver as follows:

The Corporation is in receipt of your letter of September 23, in which you inquire, at the request of the Federal court, the reasons for the declination by the Corporation of a loan to the receiver of the Minneapolis & St. Louis Railroad Co.

I have been directed by the board to advise you that after the Interstate Commerce Commission approved a loan to the receiver of the Minneapolis & St. Louis Railroad for the purpose of paying preferred claims and the maturing Merriam Junction-Albert Lea first mortgage, but without provision for payment of receiver's certificates, our counsel and the staff of the railroad division discussed this situation extensively with members and representatives of the staff of division 4 of the Interstate Commerce Commission and the matter was carefully considered by our board. The best judgment of all concerned was that the future of the road would be best served and our funds used to the maximum advantage, if any action taken by the Corporation could be part of a broad program looking to the lifting of receivership and reestablishment of the credit of the road.

Persons interested in the reorganization of the property later conferred with our representatives, from time to time, with a view of working out a plan of reorganization with the Corporation's assistance. It appeared, as a result of these conferences, that the interested parties were unwilling to attempt a reorganization unless the Corporation would lend all the funds necessary in such reorganization, exclusive of committee expenses but including estimated working capital required for the next several years.

It has not been the policy of the Corporation to provide funds for meeting railroad maturities in full, and it was the opinion of our representatives that to do so in this case would be impractical; consequently, these discussions were discontinued for the time being.

In the meantime, other interested parties requested a reconsideration by the board of the receiver's application. Acting upon this request, the board reviewed the application and found itself unable to approve the loan.

At that time we were lending a part. If a road had a dollar maturity and we could lend 25 cents or 50 cents or a lesser amount on each dollar of maturity and assist in extensions, that was more or less the policy.

Senator SHIPSTEAD. In the next to the last paragraph that you read you stated that—

It has not been the policy of the corporation to provide funds for meeting railroad maturities in full.

If you had extended this loan would that have paid that obligation in full?

Mr. JONES. All that were specified. They wanted this money to pay certain specific items.

Senator MURPHY. I think it was previously stated that that did not include the receiver's certificates?

Mr. JONES. No; but the items that were to be paid, were to be paid in full.

In January 1933 the receiver made another application for a loan of $1,027,174.52, with which to pay vouchers, taxes, and the principal and interest of four equipment trusts. The Interstate Commerce Commission approved this loan, but it was declined by our board for the same general reason. We thought that the reorganization of the property was essential to its general welfare and that no good purpose would be served by making that loan.

Soon after this Mr. F. J. Lisman began discussing informally with the directors and members of our railroad division plans of reorganization.

On August 29, 1934 I addressed a letter to Mr. Lisman which I should like to read. This letter was addressed to the reorganization committee, in which I said:

If the Minneapolis & St. Louis Railroad should be taken out of receivership and reorganized upon a capitalization plan acceptable to the court, the Interstate Commerce Commission, and the Reconstruction Finance Corporation (that is, a capitalization that would enable the road to earn its fixed charges), the Reconstruction Finance Corporation will, upon a certification of the Interstate Commerce Commission, give favorable consideration to making a loan up to $4,750,000 to the newly organized railroad upon the security of a closed first mortgage sinking-fund bond issue against said railroad, of $8,000,000, the reorganization to exclude any part of the road that this Corporation might designate; the entire net earnings to be applied to interest on and retirement of this Corporation's loan until fully paid.

Our thought about that, upon advice, was that if there were certain mileage that was a drain upon the company's income or if the road were reorganized, leaving out that particular mileage, the security for the loan would be better.

When this letter was published other creditors' committees came to see us to protest our commitment to the Lisman committee. Mr. McElwee was on one of these committees and Mr. Philip Roosevelt was on the Lisman committee. There were probably three groups exclusive of the Lisman committee. Of course, it soon developed that no agreement could be had between the contending bondholders' committees.

About that time a suggestion was made that possibly a solution for the Minneapolis & St. Louis could be had in cooperation with some other system in that general territory, or some of the other systems. With that in view I addressed a letter to the chief executive officers of the following roads: Chicago & Northwestern, Burlington, Milwaukee, Rock Island, Great Northern, Illinois Central, Northern Pacific, and Wabash. I sent a copy of this letter to Mr. Lisman, Mr. Colpitts, and Mr. Philip Roosevelt, and, perhaps, some others. The letter read as follows:

It has been suggested that instead of reorganizing this railroad to continue operation as an independent system, in area already suffering from excessive competition, that some of the connecting carriers might agree upon a plan of purchase at a foreclosure sale, with a view to each system taking such part of the Minneapolis & St. Louis as they might be able to use.

If such a plan can be effected and the territory still have proper railroad service, the R. F. C. is prepared, subject to the approval of the Interstate Commerce Commission, to cooperate in arranging the finances.

I sent a copy of that letter to those gentlemen.

Senator TRUMAN. What was the date of that letter?

Mr. JONES. October 5, 1934.

On October 12, 1934, I issued the following press statement:

Apropos of my invitation to certain railroad men to meet in Washington Monday for the purpose of discussing the Minneapolis & St. Louis Railroad, it is my thought that inasmuch as this road has been in receivership for 11 years and that the territory it traverses is also served by several larger systems, it seems desirable to explore all possibilities concerning the Minneapolis & St. Louis before any reorganization is effected. It is possible that everybody concerned—the territory served, the creditors, and competing lines—might be

better off if some different solution can be found than to maintain this road as an independent system.

The R. F. C. has no loan to this road or its receiver, but made a tentative commitment to a reorganization committee headed by Mr. F. J. Lisman, of $4,750,000, conditioned upon the plan of reorganization having the approval of the court, the Interstate Commerce Commission and the Reconstruction Finance Corporation, and provided the loan was first certified by the Interstate Commerce Commission.

There is another committee, represented by Mr. Melhado, with a different plan for reorganizing the Minneapolis & St. Louis. This committee has asked for consideration of a loan by the Reconstruction Finance Corporation should its plan be approved by the court and the Interstate Commerce Commission.

This was October 12.

Senator MURPHY. Up to this point, Mr. Jones, it appears that whatever applications had been received for loans had been rejected?

Mr. JONES. Except this tentative proposal with reference to the $4,750,000 to aid in reorganization. That was August 29, 1934, and these other things followed.

In our discussions with executives of the roads which proposed to participate in the purchase of the Minneapolis & St. Louis a minimum of inconvenience to the public served by the Minneapolis & St. Louis and proper compensation to displaced labor was contemplated.

I will call attention, if I may, to the following paragraph in my press release of February 27, 1935, at which time we agreed to make the loan of $7,200,000 [reading]:

Most communities served by the Minneapolis & St. Louis are also served by other railroads. To protect any that are not, and to minimize public inconvenience, the plan contemplates furnishing highway transportation service to communities of any substantial size which would be deprived of railroad service. The purchasing roads, as far as possible, will agree to absorb and protect displaced employees.

I can appreciate that no community wishes to give up a mile of railroad track or an employee of a railroad serving it, but if, due to changed conditions, a road cannot be made self-sustaining, consolidations, where possible, seem desirable. There is also an established machinery for abandonment of track under certain circumstances, created by Congress. I am advised that the Minneapolis & St. Louis abandoned 22 miles of main line in 1935, and have received approval from the I. C. C. to abandon 102 miles in 1936. The records show that during the past 5 years the Interstate Commerce Commission has authorized the abandonment of approximately 1,600 miles of track per year.

From 1935 back to and including 1919, which is the entire period since the close of the World War, the Minneapolis & St. Louis has had a net operating income averaging $183,000 per year, all of which and probably more could very properly have been used for maintenance of the road and equipment. It is not very promising to reorganize a system that has only as much as that.

Senator SHIPSTEAD. Do you refer to net income after operation?

Mr. JONES. Yes; before charges.

Senator SHIPSTEAD. Before interest?

Mr. JONES. Yes; an average of $183,000.

Senator SHIPSTEAD. That is counting income available for fixed charges?

Mr. JONES. Operating income.

Senator SHIPSTEAD. That was operating income?

Mr. JONES. Yes.

Senator SHIPSTEAD. Not net operating income?

Mr. JONES. Net operating income available for charges.

Senator MURPHY. May I bring to the witness' mind this fact, that a distinction has been made in the testimony here between net earnings and earnings.

Mr. JONES. You mean gross earnings?

Senator MURPHY. The word "gross" was not used. The Interstate Commerce Commission, it appears, uses the word "earnings", and after the earnings are taken care of, that is, in the payment of fixed charges, then the figure left is used as credit from operations. It impressed me at the time that that was what we would ordinarily, in business, refer to as net income, that is, income after fixed charges.

Mr. JONES. The net is before interest. Interest is a fixed charge.

Senator MURPHY. As you refer to it, the net income is before fixed charges?

Mr. JONES. Yes. It is after taxes and operating expenses and maintenance.

Senator MURPHY. But before fixed charges?

Mr. JONES. Yes.

Senator MURPHY. Such as interest on bonds?

Mr. JONES. Yes; I have no doubt but that all of that $183,000 and more could have been properly spent on the property.

Senator SHIPSTEAD. Over how many years did you say that was the average?

Mr. JONES. From the end of the war, 1919 to 1935, inclusive.

Senator SHIPSTEAD. That is, net income for fixed charges?

Mr. JONES. Yes; that is available for interest; an average of $183,000 a year.

I am giving you these facts to show you what caused us to reach the conclusions that we have reached about the property.

In view of certain statements in testimony, if I may touch on that a little, relative to the R. F. C. and our Mr. Barriger, chief examiner of our Railroad Division, it is probably pertinent to say that the first application by the receiver of this road was declined prior to Mr. Barriger's connection with the road. I might add that I am the only remaining director of the R. F. C. that was there when the first two loans were declined.

Senator MURPHY. Mr. Barriger had no connection with the R. F. C. at the time of the declination of the first loan?

Mr. JONES. No; and as I say, I am the only remaining director who was there when the first two loans were declined. Not that I am denying my full share of the responsibility. It was upon my recommendation to our Board that we made the tentative offer to loan $4,750,000 if an acceptable plan could be put forward that had the approval of all in authority, the Interstate Commerce Commission, the court, and ourselves.

I have also had in mind that in 1920 you passed laws looking to the consolidation of railroads, and in 1929, I think it was, the Interstate Commerce Commission announced a tentative plan according to the law; but very little has been accomplished in the

way of consolidations since that time. It is due probably to the fact that the interested parties, the people controlling the various roads, are not inclined or have been unable to come to an agreement about the consolidation of their properties, and, further, because there is no law that will force it. No one has authority to say to two railroads, "You have got to consolidate." Congress started it, but we did not go far enough, if we wanted to accomplish what apparently was in the mind of Congress at the time the law was passed.

Whatever our position about this road may be, it is all here in the records, and everything we have ever said about it and everything we have ever written about it is here for your files. We are perfectly aware, as you are, that nothing can be done about the property without the approval of the court in whose charge it now is and has been for 13 years, and without the approval of the Interstate Commerce Commission. We have no power in the matter whatever except to cooperate in whatever plans might be put forward.

In addition to that statement and the facts contained in it, I would like to leave here some exhibits. One is a copy of two letters by Mr. Philip Roosevelt, Minneapolis & St. Louis banker and chairman of one of its bondholders' committees, the originals of which letters are in our files and are available to you if you want them. These letters protest against any loan by the R. F. C. to the receiver of the Minneapolis & St. Louis.

If I may, I would like to read a paragraph or two from one of Mr. Philip Roosevelt's letters [reading]:

> I should like to point out that the Interstate Commerce Commission is not wholly without blame and is perhaps primarily responsible for the existence of these deficits.

He has been talking about the deficits.

> In other words, the rate policy for a long period of years has been one of confiscating the property of the security holders.

And so forth. He is complaining about the rates which they have been allowed to charge. And then he says [reading further]:

> The application for $1,000,000 by the receiver does not mark the end of his applications for loans. Within 6 months he will be after you again for more money.

This letter is addressed to us, to our Railroad Division [reading further]:

> Practically all of the security holders' money having already disappeared down the sinkhole, is it wise to proceed pouring unlimited sums of taxpayers' money down the same sinkhole?

Senator SHIPSTEAD. He refers in that letter to the application for a loan that was not for the purpose of affording a reorganization?

Mr. JONES. Yes, sir.

Senator SHIPSTEAD. That was the first loan?

Mr. JONES. Yes; which we declined, and which was to pay certain preferred creditors.

Senator SHIPSTEAD. It was the position of the bondholders that there should be a reorganization, and therefore they did not want any more money loaned without a reorganization?

Mr. JONES. That is right.

Here is another very long letter from Mr. Philip Roosevelt. I will read just one or two paragraphs, and leave it for the record [reading]:

> The reorganization committee earnestly urges that no loan should be made except in connection with a reorganization which would permit the termination of the long period of receivership and litigation and the union of all interests in the property into single ownership, which is indispensable for successful operation.

And so forth. Then he goes on [reading further]:

> From the above it is apparent that the Minneapolis & St. Louis Railroad, although producing operating revenues of more than $165,000,000 during the last 12 years, has saved for bond interest only 3.43 percent of its gross earnings. The reorganization committee believes that any enterprise in which the margin of profit for services rendered (quite apart from any question of a fair return on a reasonable valuation) is so small, is not being conducted as a business, but rather as a charitable enterprise for the purpose of paying wages and taxes that are not now being earned and the expense of a transportation service which is not only not compensatory but at the present time not self-supporting. Such an enterprise cannot permanently endure, and we believe that it will do no good, but much harm, to postpone through further borrowing the time when this fact is realized by the public, the Congress, and the regulatory bodies charged with the administration of the laws relating to the railroads.
>
> Since it is apparent from a review of the operations of this carrier over a period of years that it has not been able to return a reasonable return for the service which it has rendered under any scale of rates which the Commission has been willing to approve * * * and since at the present time there is apparently no reasonable basis for expecting that this situation will be changed, the reorganization committee believes that it is unfair, unlawful, and contrary to the public interest to postpone through prior-lien borrowings the time when operations must be ceased, thereby consuming what little value remains in the property for the investor. The committee is convinced that this process will adversely affect the securities of other carriers which, like the Minneapolis & St. Louis, are not even earning operating expenses and constitutes a direct appropriation of the property of the investors without due process of law.
>
> In the circumstances, the reorganization committee earnestly submits that if gross revenues cannot be increased or expenses reduced no further debt should be incurred and that the only proper course open is to cease operations and to permit the owners of the property to salvage what remains of their investments through sale of parts of the railroad to other carriers and liquidation of the remaining assets.

Senator SHIPSTEAD. What is the date of that letter?

Mr. JONES. February 9, 1933.

Senator MURPHY. And what was the date of the preceding letter, please?

Mr. JONES. March 1, 1933. I will leave them here for the record.

(The letters and documents referred to by the witness will be found printed in full at the end of his testimony given on this day.)

Mr. JONES. I have a copy of a letter that Mr. F. J. Lisman wrote to Mr. Clarence Miller on May 26, 1936, from which I will read the following [reading]:

> The newspapers carried the report of McElwee's testimony yesterday before the Shipstead subcommittee on Minneapolis & St. Louis.
>
> While of course I have not the slightest knowledge of what the conversation between Mr. McElwee and Mr. Barriger might have been, I do have definite knowledge of what preceded the agreement in accordance with which the Reconstruction Finance Corporation was to make a loan for the purpose of helping the bondholders' committees representing various divisional liens of the road to reorganize the Minneapolis & St. Louis.

Mr. Barriger was present at that time in Washington and thoroughly cooperated with me toward achieving my purpose; that is, of reorganizing the road in the interest of the security holders, at the same time protecting the proposed loan of the Reconstruction Finance Corporation.

As to the statement that the suggested loan to the Associated Railways was to be helpful to Mr. Prince, I can only say this is absurd on the face of it, because this arrangement could not possibly benefit Mr. Prince inasmuch as it would give very little to any of the bondholders and nothing to the refunding and extension mortgage in which Mr. Prince, I think, has the largest interest.

It would be perfectly convenient for me to be in Washington on Wednesday next and if the committee wishes me to do so I will be very glad to testify as to what I know about this situation.

I have a copy of another letter here which was written on May 25, 1936, by Mr. Philip J. Roosevelt to Mr. L. C. Sprague. Mr. Sprague, I believe, is one of the receivers of the road [reading]:

DEAR MR. SPRAGUE: I have just seen the report on the Dow-Jones news ticker of the sensational Mr. McElwee letter to the effect that Barriger worked out the dismemberment plan for the Minneapolis & St. Louis in order "to save the interests of Mr. F. H. Prince of Boston."

I rather deplore this publicity, and I am afraid it will do us more harm than good because I feel pretty sure that it is nonsense. How will a plan which leaves less than $3,000,000 altogether to be divided among the various securities protect Mr. Prince's interests? How can it? This sort of irresponsible sensational statement is pretty sure to hurt all those of us who are opposed to the dismemberment plan.

He sent a copy of that to Mr. Barriger.

Senator MURPHY. At that point, you are advised as to what securities of this road Mr. Prince owns?

Mr. JONES. No; I am just giving you the information available to me.

Senator MURPHY. It would appear that he did not own the underlying issue.

Mr. JONES. No.

Senator MURPHY. And he would not be a beneficiary from the carrying out of this plan as proposed by Mr. Barriger?

Mr. JONES. No, sir. It is my understanding that he would be entirely out of the picture and get nothing for his securities.

I have a copy of a telegram here which I should like to place in the record. It is from Mr. Ralph Budd, of one of the participating roads, stating that if the Associated Railways acquire the Minneapolis & St. Louis it will apply the dismissal-wage agreement recently entered into by labor representatives and railroad executives to any employees affected by the carrying out of the plan. That is, if the plan should go through and labor will come into that plan.

Senator DIETERICH. Budd is connected with the Burlington Railroad, is he not?

Mr. JONES. Yes, sir; he is president of the Burlington.

I have a letter here from Mr. Barriger, or a statement by him in a letter addressed, Senator Shipstead, to you, in which he says [reading]:

MY DEAR SENATOR SHIPSTEAD: On May 25 Mr. James F. McElwee of Peoria, Ill., appeared before your committee and reiterated certain statements regarding me which he had previously made in a letter to Herbert F. Horner, of the Minneapolis & St. Louis Executive Defense Committee, under date of April 4, 1936, copy of which letter was introduced in the proceedings.

The conversation which Mr. McElwee referred to in his letter took place in the office of Mr. Richard Hackett in Chicago on December 19, 1934. Mr. Hackett was present during the entire conversation.

I made no such statements as Mr. McElwee has attributed to me. Mr. Hackett, who was present throughout the meeting and who desires to be heard by your committee, will verify this.

Furthermore, his statement regarding my working for the personal interests of Mr. Prince is manifestly ridiculous. Mr. Prince holds bonds secured by a mortgage on the South Dakota extension. Under the plan of the Associated Railways the South Dakota extension would be largely abandoned and Mr. Prince's holdings substantially wiped out. So far from benefiting from the plan suggested, he has reason to oppose it, if any securityholder has.

My views on the present position and the future of the Minneapolis & St. Louis were fully set forth at the recent hearings in Minneapolis on the Associated Railway plan, and since a full transcript of my testimony at that hearing has been furnished your committee, I need not repeat them here.

Mr. E. L. Oliver, research director of the Brotherhood of Railway Clerks, commented before your committee on Tuesday about my attendance at the Minneapolis hearing. I attended that hearing at the request of representatives of the Associated Railway Co. as its witness. In obtaining permission from the Reconstruction Finance Corporation to appear, it was understood that I would be speaking solely for myself and not for the corporation. Associated Railways Co. agreed to reimburse the Reconstruction Finance Corporation for my expenses and such part of my time as I was away from my duties, regardless of whether or not a loan is ever made by the Reconstruction Finance Corporation.

It is signed "John W. Barriger, III, Chief Examiner, Railroad Division."

I submit the Philip Roosevelt letters because of his gratuitous criticism of the entire national administration when before your committee last week, which criticism was irrelevant and entirely beside the point.

While Mr. Lisman would prefer reorganizing the road as an independent system, neither he nor Mr. Philip Roosevelt has offered any acceptable plan during the 12 years of their bondholders' committees.

I think it also worthy of note that the bankers' interest in a railroad is to make money from its securities, and when a road comes to grief the bankers all too often make another profit from its reorganization; and I think that their testimony and their attitude should be regarded in that light.

I should like to say, further, that the inspection of this road made by Mr. Barriger, and the request of our board, was at the request of Mr. Lisman and the receiver of the road and made in company with Mr. Lisman and the receiver of the road.

Senator SHIPSTEAD. That was in 1933?

Mr. JONES. Yes, sir; in the latter part of 1933.

Those are my comments, and I shall be very glad to answer any questions if you care to ask any.

Senator SHIPSTEAD. You have covered chronologically the sequence of the proceedings as far as the R. F. C. is concerned?

Mr. JONES. Yes, sir.

Senator SHIPSTEAD. That first loan of something over $3,000,000 was asked for to pay certain charges that were due?

Mr. JONES. Which loan is that, Senator?

Senator SHIPSTEAD. The first loan that was applied for in 1932 was not based upon a proposed reorganization of the road; it was simply a receiver's application for a loan to pay certain debts that had to be paid?

Mr. JONES. That is right.

Senator SHIPSTEAD. The second loan for $1,027,000 in 1933 was also to be used to pay certain fixed charges?

Mr. JONES. That is right.

Senator SHIPSTEAD. And that was turned down?

Mr. JONES. Yes, sir.

Senator SHIPSTEAD. You said that that was approved by the Interstate Commerce Commission?

Mr. JONES. Yes.

Senator SHIPSTEAD. But you turned it down. I believe you stated your reasons for turning it down. Will you state them again?

Mr. JONES. They are here in the record. Our reason was that we thought that any loan should look to the reorganization of the property.

Senator SHIPSTEAD. I believe the record shows that Mr. Barriger in an Interstate Commerce Committee hearing testified it was turned down because they did not think it could be paid?

Mr. JONES. I think that is partly true, too. Our records are here. I assume that the information before us was that the loan would not be an adequately secured loan.

Senator SHIPSTEAD. At that time there were unpaid vouchers outstanding of nearly a half million dollars, and they were to be retired out of that loan; is not that so?

Mr. JONES. Yes; they were to be retired.

Senator SHIPSTEAD. Do you know that up until the present time, without any further lending, that that loan has all been paid out of earnings?

Mr. JONES. I do not.

Senator SHIPSTEAD. Did you know that the unpaid vouchers outstanding at that time have now been reduced to about $12,000?

Mr. JONES. I did not. I have not kept up with it, Senator.

Senator SHIPSTEAD. Did you know that the road at this time is not in default on taxes or receivership charges?

Mr. JONES. I am not familiar with that.

Senator SHIPSTEAD. That its earnings and income returns show enough to pay charges on all receivers' debts, including taxes, and that in 1935 it had a net income after all charges?

Mr. JONES. I am not familiar with that.

Senator SHIPSTEAD. Mr. Barriger made an inspection of the road in 1933, did he not?

Mr. JONES. Yes.

Senator SHIPSTEAD. And after that inspection was made I suppose he reported to the R. F. C. did he not?

Mr. JONES. I have not been able to find a written report on it. He has his data all available; but there has been no direct report or recommendation to the board because there was no occasion for that.

Senator SHIPSTEAD. After that inspection the R. F. C. promised, under certain conditions, a loan of $4,500,000 based upon the condition that there should be a reorganization?

Mr. JONES. Yes.

Senator SHIPSTEAD. That was after the inspection of the road by Mr. Barriger in 1933?

Mr. JONES. Yes.

Senator SHIPSTEAD. But you do not know whether he made a report to the Corporation on that inspection?

Mr. JONES. He made a verbal report. His material is all there, Senator. He may not have made a direct written report to our board, because there was no occasion for that; but the material is there. The information that he gained by his inspection of the property is available.

Senator SHIPSTEAD. It was not necessary to make a report, do I understand?

Mr. JONES. Not a written report; no.

Senator SHIPSTEAD. Did he make any kind of a report on that inspection?

Mr. JONES. I advised with him at the time I wrote this letter and also, of course, conveyed to the members of our board all the information that I had available.

Senator SHIPSTEAD. Before the commitment of $4,500,000 was made?

Mr. JONES. Yes.

Senator SHIPSTEAD. Are you aware that Mr. Roosevelt has stated that when the letter of withdrawal came the bondholders' committee agreed to a reorganization program and that that reorganization program had been 90 percent agreed to?

Mr. JONES. I am not aware of that. I did not know he had made a statement, and I am not aware of it as a fact.

Senator SHIPSTEAD. On October 5 you addressed a letter to the president—that was in 1934—in which you discussed the Minneapolis & St. Louis situation?

Mr. JONES. Yes.

Senator SHIPSTEAD. Did you have this plan in mind at that time?

Mr. JONES. No, sir.

Senator SHIPSTEAD. You said in that letter that it had been suggested——

Mr. JONES. Or some other solution of this problem in connection with another system or systems.

Senator SHIPSTEAD. Who suggested that plan to you?

Mr. JONES. I really do not know.

Senator SHIPSTEAD. You called in railroad presidents and suggested this plan to them, the same plan. Did you ask them to prepare a plan under which they could absorb this railroad?

Mr. JONES. I have talked quite informally at different times when I would see a railroad man from that general section, about the whole railroad situation, because all of them were having their troubles, and this matter was discussed at some of those conversations.

Senator SHIPSTEAD. Did you ask them to formulate a plan at that meeting?

Mr. JONES. I asked them; yes. I asked them to see if they could themselves suggest something that would be in the interests of the railroad situation generally in that territory.

Senator SHIPSTEAD. Did they agree to do that—to try to see what they could do?

Mr. JONES. Yes.

Senator SHIPSTEAD. On February 26 you called them in again?

Mr. JONES. Yes.

Senator SHIPSTEAD. Did they then bring a plan with them?

Mr. JONES. They brought it in about that time, in connection with that meeting; yes.

Senator SHIPSTEAD. Did they have this plan with them when they came?

Mr. JONES. We probably discussed various features. Particularly I recall that labor must be taken care of, that no men would lose their jobs, and if they were not needed in one town they would be taken probably to another town—something of that kind; that any community left without service was to be given adequate service by highways, by means of trucks and busses; and those various features of the plan were discussed. I have always felt, and feel now, that it is the railroad's responsibility, if there is a consolidation, in regard to this or any other, that the territory served must still be served and properly served, and that labor must not be displaced.

Senator SHIPSTEAD. You had in mind the public interest?

Mr. JONES. I had in mind the public interest at all times, and I have it in mind now.

Senator SHIPSTEAD. At that meeting this plan was finally agreed to, was it?

Mr. JONES. Yes; in general.

Senator SHIPSTEAD. It includes partial consolidation and partial dismemberment of the road?

Mr. JONES. Yes.

Senator SHIPSTEAD. Particularly in the public interest?

Mr. JONES. Yes.

Senator SHIPSTEAD. Do you think there are many railroads that ought to be consolidated and dismembered?

Mr. JONES. I say we have more railroad mileage than we can support without some sort of subsidy.

Senator SHIPSTEAD. You had in mind that Congress might have had that in mind also when it asked the Interstate Commerce Commission to make a survey of the possibilities of consolidating railroads?

Mr. JONES. I do not know what they had in mind, but it would seem reasonable that they had in mind something of that kind.

Senator SHIPSTEAD. At the time you called these people in, at the time they came in with this plan after you had asked them to prepare a plan, you had that in mind, did you not, in the public interest?

Mr. JONES. Yes. I think our whole railroad problem, Senator, is a pretty important one, and it is important to everybody in every section of the country.

Senator SHIPSTEAD. And if another railroad should be in the same condition as the Minneapolis & St. Louis, and the same problems were involved as are involved with reference to the Minneapolis & St. Louis, and some railroads should want to consolidate and needed some money for the purpose of carrying out their consolidation, you would loan them the money if they gave adequate security?

Mr. JONES. If properly authorized and properly secured; yes.

Senator SHIPSTEAD. What do you mean by "properly authorized"?

Mr. JONES. I could not do it without the Interstate Commerce Commission approving it.

Senator SHIPSTEAD. What are the duties of the Interstate Commerce Commission in matters of loans? What is their authority and power in relation to loans?

Mr. JONES. I do not know, but I know we cannot make a loan without the Interstate Commerce Commission first certifying it.

Senator SHIPSTEAD. Can they certify to anything under the law affecting the Reconstruction Finance Corporation except they pass upon the question of whether or not, in their opinion, the loan would be properly secured? If the security offered is of such a nature as to reasonably assure you that the Government will ge back its money, they pass upon that, do they not?

Mr. JONES. Yes.

Senator SHIPSTEAD. They do not pass upon the question of whether ample compensation is given to the dismembered road, if such a thing should arise, do they? Or if the plan should provide for dismemberment of the road, they have nothing to do with deciding whether or not there is proper compensation?

Mr. JONES. I think they have all the power. I do not think anything can be done about a railroad without the approval of the Interstate Commerce Commission.

Senator SHIPSTEAD. The law creating the Reconstruction Finance Corporation was amended so as to provide that no loan should be made by the Reconstruction Finance Corporation unless the Interstate Commerce Commission approved the loan as to security?

Mr. JONES. That is right; also the purpose—security and purpose.

Senator SHIPSTEAD. Do you think that the purpose includes a policy of consolidating the railroads of the United States and dismemberment?

Mr. JONES. That would be a matter of opinion.

Senator SHIPSTEAD. Would it be a matter of law?

Mr. JONES. Then it would be a matter of interpretation. I have not read it carefully.

Senator SHIPSTEAD. The act of Congress directing the Interstate Commerce Commission to make a survey as to the possibility and practicability of consolidations and whether or not consolidations of railroads are in the public interest, was a request by Congress to the Interstate Commerce Commission to perform that service. It did not grant the Interstate Commerce Commission any power to carry their recommendations into effect. As I understand it, the plan was not acted upon by Congress—I mean, carrying out their recommendations—because the railroads objected to it. I believe you so stated in your testimony.

Mr. JONES. I did not say that the railroads objected. I stated that I assumed that no consolidation had been effected, because of inability of the executives of the railroads to compose their own views about how a consolidation should be brought about. That is the first step. If you cannot get that far, you cannot go the next step.

Senator SHIPSTEAD. But in this case they did agree, did they not?

Mr. JONES. All except the Minneapolis & St. Louis.

Senator SHIPSTEAD. I mean, the other roads.

Mr. JONES. Yes; the seven roads.

Senator SHIPSTEAD. To carry out this plan which had been suggested, and for the formulation and creation of which you called in these railroad presidents, you committed tentatively your corporation to a loan of $7,200,000, provided they could bring a plan and provided

that so far as the Interstate Commerce Commission had authority and power to do so, to that extent and within their authority they would approve it?

Mr. JONES. Yes; but, Senator, always our directors reserve the right to approve the collateral. The principle of the plan we are favorable to and we approve, but when they finally bring in the notes, we have got to look on both sides and see if we think we have good notes.

Senator SHIPSTEAD. Yes; of course. The Interstate Commerce Commission must approve the notes, too?

Mr. JONES. They approve them first, and we frequently make commitments conditioned upon authority from the Interstate Commerce Commission.

Senator SHIPSTEAD. And because of this plan that has been suggested, you withdrew the offer of a loan, the commitment of a loan, to the representatives of the bondholders who wanted to reorganize the road?

Mr. JONES. Yes.

Senator SHIPSTEAD. You thought this was a better plan?

Mr. JONES. I thought it would be; yes.

Senator TRUMAN. Did you think it was a better or a safer plan?

Mr. JONES. I doubted the ability of the Minneapolis & St. Louis as an independent system to survive. I am not concerned with whether or not they tear up 1 mile or 4 miles of track. What I was interested in was a possible contribution to the railroad situation in that territory. I think it is a little bit overrailroaded.

Senator SHIPSTEAD. If it could have been shown to you that the railroad could have been operated as a unit and pay its fixed charges with reasonable compensation, you would have gone through with the loan?

Mr. JONES. Undoubtedly.

Senator SHIPSTEAD. Did the committee representing the bondholders at any time have an opportunity to present to you their plan?

Mr. JONES. Oh, yes. We talked to them a lot of times, different committees.

Senator SHIPSTEAD. Did you talk to them after you committed yourself to the loan?

Mr. JONES. I think so; probably. I do not remember exactly; but they are in and out all the time, Senator. None lately, about this; but I had talked with Mr. Lisman before I wrote this letter about it. I told him at the same time that probably a better plan could be found in cooperation with the other roads.

Senator SHIPSTEAD. Did he agree to that?

Mr. JONES. I do not remember whether he agreed with it or not. He had no particular objection to the withdrawal, as I recall it.

Senator SHIPSTEAD. Are you aware that Mr. Roosevelt, of the executive committee, had testified that when he got your letter of withdrawal it was on the day that he had called a meeting of the bondholders to consider the final plan of reorganization?

Mr. JONES. I was not aware of that.

Senator SHIPSTEAD. And that they could not go through with it because of the withdrawal of the commitment or the loan?

Mr. JONES. I am not aware of that. I doubt if I have ever talked to Mr. Philip Roosevelt. I have talked to Mr. Lisman a number of times.

Senator SHIPSTEAD. He did not testify that you had talked with him, as far as I remember.

Senator DIETERICH. Your purpose in going into the matter of reorganization in the public interest is to ascertain whether the commitments you make and the loans you make are properly secured and that the road is operated in the manner in which it is intended to be operated and will be ample security for the money. In other words, the matter of the general reorganization of roads and consolidations such as that is left to the Interstate Commerce Commission?

Mr. JONES. Yes.

Senator DIETERICH. The only interest you have is in knowing that they propose a practical and safe proposition?

Mr. JONES. That is right.

Senator DIETERICH. One that you can afford to commit money on?

Mr. JONES. Yes.

Senator DIETERICH. This road is now in the hands of the United States Court?

Mr. JONES. Yes.

Senator DIETERICH. It will be put up for sale?

Mr. JONES. Yes.

Senator DIETERICH. And whoever the purchaser is, if he intends to operate the road he must first go to the Interstate Commerce Commission and present his scheme there?

Mr. JONES. Yes.

Senator DIETERICH. And after he has done that, then he makes his application to the Reconstruction Finance Corporation for a loan, in case he intends to secure a loan?

Mr. JONES. Yes.

Senator DIETERICH. And if the Interstate Commerce Commission O. K.'s that loan, so to speak, and you think that the security is adequate and the collateral is adequate, you make the loan?

Mr. JONES. Yes.

Senator DIETERICH. And that is the the only interest the Reconstruction Finance Corporation has in it; is that right?

Mr. JONES. Yes.

Senator SHIPSTEAD. In this case, the Reconstruction Finance Corporation suggested to the borrowing companies that they come in with a plan?

Mr. JONES. How is that, Senator?

Senator SHIPSTEAD. In this case, I say, the borrowers who were here to borrow this money did go to the Interstate Commerce Commission with their plan; you asked them to come in and asked them to prepare a plan? You asked the Associated Railways to come in. You asked them to prepare a plan, and after they come in with a plan it was subsequently presented to the Interstate Commerce Commission, was it not?

Mr. JONES. Yes. Of course I did ask for this conference, but I doubt if I knew enough about the situation out there to have originated the plan. It must have come from some railroad man in that territory. I have no objection to assuming the responsibility if I did

it, but I have never been out there, and I naturally would not have had the information.

Senator SHIPSTEAD. But this plan could not have been submitted to the Interstate Commerce Commission before it had been formulated and completed as a plan, could it?

Mr. JONES. By the railroads; that is right.

Senator SHIPSTEAD. And you had tentatively approved it?

Mr. JONES. We had agreed tentatively to make this loan.

Senator BENSON. You testified that the net railway operating income over a period of years, 10, 12, or 15 years, of the Minneapolis & St. Louis was $183,000?

Mr. JONES. According to the records we got from the Interstate Commerce Commission.

Senator BENSON. Is it not a fact that that $183,000 net income is the receiver's net income after the payment of interest and not before?

Mr. JONES. I doubt if it has paid any interest.

Senator BENSON. You do not deny that it has?

Mr. JONES. My understanding is that this $183,000 is before interest.

Senator BENSON. Is it not a fact that the net railway operating income for the years that you have testified to is not $183,000 a year but $325,000 a year?

Mr. JONES. My information comes from records.

Senator BENSON. You have those records here?

Mr. JONES. I think they can be made available. I have not them with me, but I wrote my letter from records.

Senator BENSON. You also testified that your interest in this matter was to protect the employees of the railway, too. You did not want to see people thrown out of work?

Mr. JONES. That is exactly right.

Senator BENSON. Would your Corporation be willing to finance the Associated Railways to pay the salaries of the people that would be thrown out of employment for a period of 1 year?

Mr. JONES. I do not think they would have to; but we certainly would expect that would be a charge upon the railroad.

Senator BENSON. Do you know how much that would amount to in this particular case?

Mr. JONES. No; I do not.

Senator BENSON. If you were told that it would amount to $10,000,000, would you think that was an excessive figure?

Mr. JONES. I have not the slightest idea; but there has never been any discussion by me except that the employees should be taken proper care of.

Senator BENSON. You do not know, then, that under this pending application there would be many people thrown out of work, according to the testimony of the Associated Railways?

Mr. JONES. You say I do know that?

Senator BENSON. I say, do you know it or do you not know it? Do you know or do you not know that under the application of the Associated Railways it has been testified that they would throw out of employment more than 2,800 people?

Mr. JONES. I do not know that; but there is no reason why anyone should be thrown out of employment. I maintain that if an

employee is not needed to do this work, he can be used to do this other kind of work over here, and that every employee can have a job.

Senator BENSON. Before this application is granted, if it is granted, and you make the loan to the Associated Railways, will you make that a condition?

Mr. JONES. I have made it a condition all the time.

Senator BENSON. That no one will be thrown out of employment?

Mr. JONES. He might have to move, you see. I stated that at Minneapolis in a little impromptu speech a year or so ago, when your Governor was sitting beside me, and he asked me this question.

Senator BENSON. I was present.

Mr. JONES. You heard what I said then?

Senator BENSON. Yes.

Mr. JONES. All right. I have always had in mind that there was enough work to do to keep everybody at work, that the only thing would be that men might have to move from one town to another; but if one railroad operates the line it will need just as many employees as the other, and if it is better financed and it is maintained better, it will employ more people.

Senator BENSON. That is not what the Associated Railways testified to, though.

Mr. JONES. I do not know anything about that.

Senator BENSON. Well, we know they did not.

Mr. JONES. The Associated Railways?

Senator BENSON. Yes.

Mr. JONES. Did they testify?

Senator BENSON. They certainly did.

Mr. JONES. What did they testify?

Senator BENSON. That all the people in the Minneapolis general office would be thrown out of employment; and there are a thousand employees there.

Mr. JONES. Someone has got to do that same work, whoever runs the railroad. It does not make any difference who operates it; you have got to have people to operate it.

Senator BENSON. I would be perfectly willing to trust that to you, but I am not so sure that I would care to entrust it to the Associated Railways, because they testified just to the contrary.

Mr. JONES. I think we can take care of labor.

Senator DIETERICH. The matter of shifting employees—that is done by railroads now, is it not? An employee has no right to stay in one particular place, if his services are not required there but are required in some other place. When that occurs a general shift takes place, does it not?

Mr. JONES. I know railroad people do move about from town to town.

Senator DIETERICH. If there is more demand on one division than on another, they supply them there?

Mr. JONES. Yes.

Senator BENSON. We are dealing with a very practical and pressing problem now. We are not dealing with any theory of how railroads are——

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Mr. JONES. Yes.

Senator BENSON. We are dealing with a very practical and pressing problem now. We are not dealing with any theory of how railroads are——

Mr. JONES. I think if this plan should be adopted, everybody employed on the road could be properly protected.

Senator DIETERICH. Regardless of what plan is adopted, you would be concerned about the matter of seeing that there is no hardship falls on any of the employees so far as it is possible to prevent it?

Mr. JONES. Absolutely.

Senator SHIPSTEAD. That possibility we do not know anything about, except what the testimony in the record has disclosed by men who have investigated it and who have testified and qualified.

Mr. JONES. You mean, representing the railroads that are going to buy the property?

Senator SHIPSTEAD. I understand that statement was made at Minneapolis, too. It was very indefinite as to what they might do; but we have had other witnesses.

Mr. JONES. Our Corporation would not cooperate in any plan that did not take care of labor on the railroad and that did not provide adequate transportation facilities for every district that is now served.

Senator SHIPSTEAD. If it should be shown that those conditions could not be met, you would not finally approve this loan?

Mr. JONES. No; but I think they can be met. I think it can be made a part of the plan.

Senator SHIPSTEAD. We will take that up a little later.

Senator BENSON. The only security you intend to take from the Associated Railways is the mileage of the Minneapolis & St. Louis, is it not? I mean the road they now have.

Mr. JONES. Yes; and the obligation of the company.

Senator BENSON. And still you say that you will insist that all the employees of this railroad be taken care of?

Mr. JONES. Yes.

Senator BENSON. Do you realize that, according to their own testimony, 1 year's salary for the people that they have testified will be displaced will amount to approximately $5,000,000?

Mr. JONES. No. It would be rather difficult for me to believe that that is the fact, because these people have got to be there; somebody has got to operate that property. I do not see why they would discharge one man and put another on.

Senator BENSON. If this amount, $5,000,000, were added to the $7,200,000 that the application requests, would you still consider it a sound and safe loan?

Mr. JONES. If these roads undertake it—I doubt if it can be so done, Senator. I do not see where there is any $5,000,000.

Senator BENSON. In fact, it is much more than that.

Mr. JONES. I do not see where it is.

Senator BENSON. There are 2,800 or 3,000 employees, and they surely must receive $1,600 or $1,800 a year each. Somebody will have to pay that.

Mr. JONES. Yes; but they will be performing a service. They are performing one now.

Senator BENSON. They have testified that they do not need them, that they are not going to employ them. In Minneapolis alone it has been testified that there will be 1,000 employees that they will not need and will not employ.

Mr. JONES. They will be protected, then, under this recent agreement.

Senator BENSON. I hope so.

Mr. JONES. They will, according to this agreement. We would not cooperate in the plan on any other basis.

Senator MURPHY. You would adapt yourselves and your policy to the plan purported to have been recently agreed upon by the railroad executives and the representatives of the brotherhoods?

Mr. JONES. I think if we did that, that would be probably as far as we ought to go.

Senator BENSON. That would not take care of the people on those lines that it has been proposed should be abandoned.

Mr. JONES. Oh, yes; it would take care of everybody—everybody that has been working for the railroad.

Senator BENSON. That may be so. I did not read it that way.

Mr. JONES. Whatever it reads, my discussion with the railroad executives has always extended to that.

Senator SHIPSTEAD. How many of these railroads that are borrowing this money are in default or in bankruptcy? Can you tell us?

Mr. JONES. I do not know, Senator.

Senator SHIPSTEAD. Are some of them or all of them?

Mr. JONES. Some of them are; not all of them.

Senator SHIPSTEAD. How many of them have borrowed money from the R. F. C.?

Mr. JONES. The Northwestern, the Milwaukee, the Rock Island, the Illinois Central; I think, the Wabash, and the Great Northern. We made a commitment to help them to meet their maturities next July.

Senator SHIPSTEAD. All of those you have named have borrowed from the R. F. C.?

Mr. JONES. Yes.

Senator SHIPSTEAD. Are any of them in default on interest?

Mr. JONES. Some of them.

Senator SHIPSTEAD. Some are in default on interest to the Government?

Mr. JONES. Yes.

Senator SHIPSTEAD. A short time ago, in your testimony, you said that the average net income of the road before charges was something like $183,000?

Mr. JONES. Yes, sir.

Senator SHIPSTEAD. That is before charges?

Mr. JONES. Yes; after taxes.

Senator SHIPSTEAD. Not after interest?

Mr. JONES. Before interest.

Senator SHIPSTEAD. I have a statement here that from 1923 to 1935, inclusive, before interest and before taxes, there was a total paid of $4,344,815.47, and the net income, after taxes and after interest, amounted to $1,660,137.65.

Mr. JONES. You say, after interest?

Senator SHIPSTEAD. Yes; it is the net income after interest charges. That is not interest on funded debt, but the interest paid on receiver's debts.

Mr. JONES. I was figuring on the amount available for interest on all debt, whether receiver's or fixed.

Senator SHIPSTEAD. After your meeting on February 26, 1935, when this plan was presented by the railroad executives and agreed to by the Reconstruction Finance Corporation, you issued this press release on the next day in which you explained the program. I have a copy of that release here.

Senator BENSON. Did your office have a record of when Mr. Barriger was on his vacation in August 1934?

Mr. JONES. I do not know. I have no record of it. There might be one.

Senator SHIPSTEAD. In this proposed plan of reorganization, or the plan that they contemplated presenting for the purpose of reorganization by the bondholders, there was contemplated a loan from the R. F. C., and this dismemberment plan also contemplates a loan from the R. F. C.?

Mr. JONES. Yes.

Senator SHIPSTEAD. The associated railways could not carry it into effect unless they got a loan?

Mr. JONES. Some of them could not. Some of the roads would be able to carry their part and some could not.

Senator SHIPSTEAD. But the plan as a whole could not be carried through without a loan from the R. F. C.?

Mr. JONES. I think that is a correct statement, Senator.

Senator SHIPSTEAD. The bondholders' committee had a tentative promise of a loan from the R. F. C., but because the R. F. C. withdrew its offer or commitment to the bondholders this is now the only plan that can be carried into effect so long as only one borrower can get money from the R. F. C.?

Mr. JONES. I assume, Senator, that we would loan to any other borrower if we thought the note would be a good note.

Senator SHIPSTEAD. Would you be willing to loan to any other borrower if you thought the plan was a good plan?

Mr. JONES. And the note was a good note.

Senator SHIPSTEAD. And the security was good?

Mr. JONES. Yes.

Senator SHIPSTEAD. You would loan to a reorganization committee of the bondholders also if they could show you that it was good?

Mr. JONES. I do not think they could show me.

Senator SHIPSTEAD. But if they could.

Mr. JONES. I do not think they could.

Senator SHIPSTEAD. Was the withdrawal of that commitment based upon a change of mind as to the security for the loan?

Mr. JONES. The more I got into the matter the more I was convinced that this property ought to be tied into some of the bigger systems. Most of them are in trouble, but the big system has a better drawing capacity for traffic. I do not see any difference whether Mr. Smith or Mr. Brown owns a railroad; the point is that the territory needs to be served, and I think you get better service—I know you do—from a strong railroad than from one that is not so strong. These bigger systems will undoubtedly come out of receiverships some time and be reorganized.

Senator Shipstead. You do not think there is any hope for that unless they come out of receivership?

Mr. JONES. If they come out of receivership, I doubt if they can survive unless they survive in cooperation with some of these bigger systems. I do not want to take railroad service from any community that can support it.

Senator SHIPSTEAD. If it can be shown that the Minneapolis & St. Louis can be supported by its earnings under new management and sustain a reasonable capitalization, and it can be shown that they can get a good mortgage and a good note, would you be willing to loan the money to them, or to anybody else under similar circumstances?

Mr. JONES. If we could be shown that; but I do not believe we can.

Senator SHIPSTEAD. You say, from information you have you do not think they can. But if you should be given new information, would you change your mind?

Mr. JONES. The road has been in receivership 13 years, and at least 7 of those years were good years, as good as this country will ever have, probably.

Senator BENSON. What years were those?

Mr. JONES. The last 13 years.

Senator BENSON. I mean, the 7 years that you have referred to as good years.

Mr. JONES. Well, start back and go the other way—5 years from now or 6 years from now, and then go on back.

Senator BENSON. The first 7 years were good years?

Mr. JONES. I would assume so.

Senator BENSON. In the area in which the Minneapolis & St. Louis is located, were those good years?

Mr. JONES. I was just thinking about the country generally. I made no study of it.

Senator BENSON. I think if you will look into the matter you will find that those were not very good years in the territory where the road is located.

Mr. JONES. I made no study of that.

Senator SHIPSTEAD. The road went into receivership in 1923?

Mr. JONES. Yes.

Senator SHIPSTEAD. Are you informed as to its condition at the time it went into the hands of a receiver?

Mr. JONES. No, I am not, Senator; but if it was not in bad condition, I do not know why it went into a receivership.

Senator SHIPSTEAD. Are you aware of the fact that from 1912 to 1923 it earned and paid in fixed charges $22,500,000?

Mr. JONES. I have not looked at the figures. I have no doubt you have them.

Senator SHIPSTEAD. And that there were no bonds in default at the time it went into the hands of a receiver?

Mr. JONES. I assume you are right about that.

Senator SHIPSTEAD. Are you aware that it had been saddled with a capital issue of stocks and bonds of $74,000,000, and the operating officers made an effort to pay interest on those fixed charges on the overcapitalized structure——

Mr. JONES. Senator, I expect it cost more than that much money.

Senator SHIPSTEAD. From the beginning?

Mr. JONES. Yes.

Senator SHIPSTEAD. There was, of course, very much more money invested, and bonds sold to the public.

Mr. JONES. It must have cost more than $76,000,000.

Senator SHIPSTEAD. And the fact that it had to go into the hands of a receiver was that on account of its overcapitalization and the interest charges that were being paid on a bond issue of $46,000,000 it drove the management to undermaintain it, and in the following year, after receivership, $6,000,000 was necessary to put in shape.

Mr. JONES. This is about as unfortunate a railroad as there is in existence; but earnings have all gone down terribly.

Senator SHIPSTEAD. Yes; we realize that. You made a point of the fact that the road had been in receivership so long. Are you aware of the fact that when it did go into receivership there was a large number of claims placed against the railroad that had to be litigated, and that that litigation did not cease until 1930, and the final decree could not be issued until that litigation was clearned up, and so, as a result of that, it was forced to stay in receivership until the final decree could be issued? Then in 1930, when it could have been reorganized, there were no private funds with which a plan of reorganization could be carried through, on account of the depression. Are you aware of that?

Mr. JONES. I am not, but I accept your statement of it.

Senator SHIPSTEAD. So that under those circumstances it was necessary for the road to stay in receivership over that period of time, and up until the present time no private funds have been available for loans to carry out a program of reorganization, except the R. F. C.; and the R. F. C. committed itself to a loan of four and a half million dollars and then later withdrew it before the plan that was in contemplation could be presented to the R. F. C.

Mr. JONES. May I say there, Senator, that this was one plan. As I said a while ago, when this tentative commitment of $4,750,000 was made we began to hear from others in protest, wanting other plans.

Senator SHIPSTEAD. I believe you said—I do not know whether I misunderstood or not—that the reason you withdrew it was because there was a protest?

Mr. JONES. No. It looked like we might find a better plan in cooperation with some of the bigger systems.

Senator SHIPSTEAD. And you thought if you could find a better plan it was your duty to do so?

Mr. JONES. I asked these railroad people in that territory to see if they could work out a better plan.

Senator SHIPSTEAD. But you proceeded on the ground that you thought you could get a better plan, and if you had not thought so, you would not have called them in or asked them to prepare one?

Mr. JONES. I thought some plan in cooperation with those other roads would be of interest to the property as well as to the community.

Senator SHIPSTEAD. Have you any knowledge of the condition of the road under the new management, and its earnings, its increase in earnings and business?

Mr. JONES. I have no specific knowledge about this road. I know the earnings of most railroads are now improving; I know that.

Senator SHIPSTEAD. Were you aware that in 1935 the road had a net income, after all its receiver's charges and after taxes had been paid, of about $39,883.61?

Mr. JONES. That is a pretty narrow margin, Senator.

Senator SHIPSTEAD. Yes; that is a narrow margin. Did you know that this year their business over 1935 and until the present time, their freight business, had increased 32 percent?

Mr. JONES. I do not know the percentage; I know there is an increase.

Senator SHIPSTEAD. This newspaper release that was issued on February 21 was read into the record before the Interstate Commerce Commission in Minneapolis. It states:

> From the beginning, with reference to the Minneapolis & St. Louis Railroad, which it was suggested some months ago might, in the interest of all concerned, be absorbed by some other and larger system, officials or representatives of the Burlington, the Northwestern, the Rock Island, the Illinois Central, the Great Northern, the Great Western, the Wabash, and Milwaukee roads agreed, subject to the approval of the Interstate Commerce Commission, on the entire plan and on the purpose of the plan, that they would be willing to pay $7,200,000 for the Minneapolis & St. Louis, taking it equipment subject to outstanding equipment-trust notes of $1,018,000 in addition.

Is that correct?

Mr. JONES. Yes.

Senator SHIPSTEAD. And upon the approval of the Interstate Commerce Commission you agreed to loan them that money?

Mr. JONES. We agreed to give favorable consideration to it. That is the most that we may do, you see.

Senator SHIPSTEAD. Are you aware that the general manager of the road has testified that he could sell the railroad as scrap for $17,000,000?

Mr. JONES. No; I was not aware of it. I think he is an optimist.

Senator SHIPSTEAD. Were you aware that lands owned by the railroad were valued by the Interstate Commerce Commission under its valuation of railroad properties at values or prices of the level of 1910 to 1914 at $7,200,000?

Mr. JONES. I was not.

Senator SHIPSTEAD. The lands owned were valued at $7,200,000 on the valuation of land from 1910 to 1914.

Mr. JONES. Rights-of-way and things of that kind?

Senator SHIPSTEAD. All the lands that they have, rights-of-way and terminal properties in the cities, the value of real estate.

Mr. JONES. When was the Interstate Commerce Commission valuation made?

Senator SHIPSTEAD. It was valued in 1917.

Mr. JONES. I doubt if it would be worth one-third or one-fourth of it on liquidation.

Senator SHIPSTEAD. The Interstate Commerce Commission valuation took as the basis of value the value of lands during the period 1910 to 1914.

Mr. JONES. I am not familiar with that. I am sure you are speaking from the record.

Senator SHIPSTEAD. Do you think that lands in cities, such as terminals usually occupy, are worth only one-third of what they were in 1910 to 1914?

Mr. JONES. Going value placed by an appraiser on property of that character, and liquidating value, would be very far apart; and when you attempt to get some cash out of the sale you would not get much. There are too many terminals already, and too many terminal properties.

Senator SHIPSTEAD. To be used for terminal purposes?

Mr. JONES. Yes. Some of the divisions are trying to bring about a consolidation of terminals because there are too many. I would not attach great importance to the value of that land if you were going to liquidate, to get cash and pay a debt. Of course a railroad property has value; but you do not destroy the value, Senator, when you put this railroad with other systems. You improve the value. You improve the value of the property and you improve the service to the territory through which it runs. If you get a better and more able system you get better service.

Senator SHIPSTEAD. Are you aware that the Minneapolis & St. Louis Railroad has the finest terminal property of any railroad in Minneapolis?

Mr. JONES. I have been told it is very fine.

Senator SHIPSTEAD. And that it is in the heart of the city where the expensive properties lie?

Mr. JONES. And would be used if this plan were to go through?

Senator SHIPSTEAD. But even for scrap it could be sold for——

Mr. JONES. It can be used.

Senator SHIPSTEAD. I am talking now about the value as scrap.

Mr. JONES. I should think if they have got a valuable terminal there, it would bring good money if another railroad could use it; but it would probably only be valuable as railroad property.

Senator SHIPSTEAD. You do not think it would be valuable for hotel or apartment-house purposes?

Mr. JONES. They have not been very happy, you know, or profitable.

Senator SHIPSTEAD. They expect to be, do they not?

Mr. JONES. They have got a long way to go.

Senator SHIPSTEAD. You said the other railroads expected to be happy when they got out of receivership and out of bankruptcy.

Mr. JONES. I think if we can get fewer railroads we probably will get them out more quickly.

Senator SHIPSTEAD. That may be true.

Mr. JONES. I am not arguing against your proposition, Senator. I am trying to explain the attitude of the R. F. C., and I am giving you my own personal views gained from information that is available to me. I believe that the people in the territory occupied by this railroad would be better off if this railroad could be in stronger systems. I do not think you would take anything away from anybody; I think you would be giving them something.

Senator SHIPSTEAD. You think they would be better off that way than if the Minneapolis & St. Louis could continue to operate as an independent unit?

Mr. JONES. If someone will put some capital into it so that it can be strong and able to improve its system, its property, and its service, it would be all right; but I do not think anybody is going to do that except the Government.

Senator SHIPSTEAD. Are you familiar with the testimony that has been given here as to the condition of the physical property of the railroad?

Mr. JONES. I am not. Neither am I prepared to believe that it is good.

Senator SHIPSTEAD. On what do you base that?

Mr. JONES. General information as it comes to me.

Senator SHIPSTEAD. From whom?

Mr. JONES. Various people.

Senator SHIPSTEAD. Whom did you consult about that?

Mr. JONES. Oh, I would talk to our own railroad division.

Senator SHIPSTEAD. Mr. Barriger?

Mr. JONES. Mr. Barriger and his assistants.

Senator SHIPSTEAD. How many people over there?

Mr. JONES. I would talk to railroad people generally that know the railroads in that territory.

Senator SHIPSTEAD. Did you discuss the matter with the Associated Railway representatives that were here?

Mr. JONES. Yes.

Senator SHIPSTEAD. They told you the property was in bad condition?

Mr. JONES. The plan contemplated that they would spend not less than $3,000,000 improving the part that they kept. That would indicate it.

Senator SHIPSTEAD. Did they say what they would spend it for?

Mr. JONES. In bettering the property.

Senator SHIPSTEAD. In what manner?

Mr. JONES. They did not go into detail as to whether it would be more rails or ties or heavier rails, but they said it would cost at least that much, and they committed themselves.

Senator SHIPSTEAD. Had any of them traveled over the road and did they know what kind of steel it had?

Mr. JONES. I would think so.

Senator SHIPSTEAD. And what was the condition of the ties?

Mr. JONES. I have no doubt they had information about it.

Senator SHIPSTEAD. Had Mr. Barriger traveled over the road and inspected it since 1933?

Mr. JONES. I do not know.

Senator SHIPSTEAD. Have you any information except general hearsay information?

Mr. JONES. The only information I can get is hearsay. I have not been out to inspect it personally.

Senator SHIPSTEAD. When you wrote to the Associated Railways on October 5, 1935, you thought then that you had reliable information as to the future of the road, and you thought that that future was not good, and in the public interest you thought it ought to be consolidated if you could get some other roads to take it over, and you were willing, if they could present a plan, to loan them money?

Mr. JONES. Yes.

Senator SHIPSTEAD. Are you aware of the change of condition of the road, its earning power, its physical condition, since that period, under new management?

Mr. JONES. Probably not.

Senator SHIPSTEAD. There has been a great change that has taken place.

Mr. JONES. The 1935 operations did not indicate it, if it only earned $30,000 or $40,000.

Senator SHIPSTEAD. Do you know of any of the roads, except the Great Northern, that had a net income after fixed charges?

Mr. JONES. The Burlington.

Senator SHIPSTEAD. Yes, of course; that is owned by the Great Northern. Do you know of any other roads among the Associated Railways that had a net operating income?

Mr. JONES. No; I do not.

Senator SHIPSTEAD. And this railroad did have $40,000——

Mr. JONES. No; I beg your pardon, Senator. You are talking about before interest. I think every one of these railroads earned something above operating expenses.

Senator BENSON. The Minneapolis & St. Louis earned more than $40,000 above operating expenses, did it not?

Mr. JONES. I take the Senator's statement for that. I thought it was $104,000.

Senator SHIPSTEAD. I said, a net income of $40,000.

Mr. JONES. The information I had was that it was $104,000.

Senator SHIPSTEAD. The net income available for fixed charges was $170,000 in 1935. That was to pay interest on the receiver's debts; and when that had been paid it had $40,000 left.

Mr. JONES. But nothing for the property.

Senator SHIPSTEAD. Nothing for the fixed charges?

Mr. JONES. No; nothing for the property.

Senator SHIPSTEAD. That would be $40,000 to be paid on the funded debt, which of course everybody knows is what throws a road into receivership. Representatives of bondholders have testified that they think, in order to put the road on a self-sustaining basis, the interest charges ought to be cut; that whatever capital is permitted to go into the reorganizaion for the benefit of the bondholders they shall not be paid anything unless it has earned above all preferred charges, such as operating expenses. In the statement you said that if the property is sold at this price, $7,200,000, the bondholders would get only a small percentage of the face of the bonds, depending to some extent upon the terms of the settlement that may be reached with creditors whose rights are not foreclosed by the decree.

Mr. JONES. What is that, Senator?

Senator SHIPSTEAD. The press release.

Mr. JONES. Which one is that, Senator?

Senator SHIPSTEAD. February 27, 1935.

Mr. JONES. I have it here somewhere.

Senator SHIPSTEAD. That was based upon your knowledge of the road prior to January 1, 1934, and the condition of the road under the old management, was it not? It could not have been based upon information now available.

Mr. JONES. Prior to 1934 or prior to 1935? I think that undoubtedly was based upon conditions prior to January 1935.

Senator SHIPSTEAD. But you could not have taken into consideration the earnings of the road and the increased business of the road that has developed since January 1, 1935.

Mr. JONES. I think that is a correct statement.

Senator SHIPSTEAD. What I am trying to show, Mr. Jones, is that there has been a great change that has taken place. That road now, under new management and under present conditions, has increased its earning power, and the curve is gradually going up. In the first 6 months of this year there has been an increase of 32 percent over the same period of 1935.

You say that the Wabash has no direct interest but its service to the Twin Cities; that service to Minneapolis will be over the Minneapolis & St. Louis from St. Louis, and under this plan that service would not be hampered, in your opinion?

Mr. JONES. That is what I understand.

Senator SHIPSTEAD. The other seven roads that agreed to participate in the purchase of the Minneapolis & St. Louis, if the plan is approved, could use the extra mileage in such a way as to provide the territory occupied with as good, if not better, service than can possibly be furnished by this road.

Are you aware of the fact that the testimony before the committee shows that the Minneapolis & St. Louis has a quicker service between Minneapolis and St. Louis than any other road?

Mr. JONES. That track was not going to be abandoned, was it?

Senator SHIPSTEAD. I mean, with its trackage rights with the Wabash.

Mr. JONES. That service under the plan would not be abandoned. The service would still be there, Senator.

Senator SHIPSTEAD. If the service were to be continued, do you think the Associated Railways could improve upon it?

Mr. JONES. It certainly would not be hurt; it might be helped.

Senator SHIPSTEAD. You say that representatives of the interested roads have given a great deal of time to consideration of the suggested plans, and, based upon the history of the earnings of the Minneapolis & St. Louis, the price seems fair. Do you mean, fair to the bondholders of the property?

Mr. JONES. I thought it seemed fair to everybody, Senator.

Senator SHIPSTEAD. Even to the bondholders?

Mr. JONES. Yes. I do not think they would get that much in any other way.

Senator SHIPSTEAD. You do not think they would?

Mr. JONES. No. And, incidentally, I endeavored to get the roads to pay as much as they would pay.

Senator SHIPSTEAD. Do you mean to say that a road that over a period from 1912 to 1923 could pay all fixed charges, amounting to $22,500,000 on bonds of 46 million, if properly managed, that the time would never come when it could earn fixed charges on a capitalization and bonded debt of $15,000,000 or $18,000,000, after having paid fixed charges on $46,000,000 for a period of 12 years?

Mr. JONES. There are worse tragedies than that in railroads, Senator. I would not predict that far, but undoubtedly the future of railroads is one that none of us can predict wisely. We have got new forms of competition. People want to travel by other methods, and they want to use other methods. They demand better service all the time. I think that not only this railroad but many others are going to have difficulty in satisfying the public as to service.

Senator SHIPSTEAD. Do you not think that a railroad that could give good service, paying fixed charges on a debt of $46,000,000, could

give reasonably good service on a debt of $15,000,000 or $18,000,000, if properly managed?

Mr. JONES. To be specific, I doubt if this railroad will ever pay fixed charges on that much capital, and I think there are other railroads comparable to it in the United States.

Senator SHIPSTEAD. Many railroads are comparable to it? You think there are many other railroads that cannot pay fixed charges on one-third of the capital under which they have been operating? Do you mean that there are many railroads in the country that cannot operate on one-seventh of the capital and pay their fixed charges?

Mr. JONES. I think there are several.

Senator SHIPSTEAD. What would you advise should be done? Would you do the same with them as you would with this?

Mr. JONES. I would if I could.

Senator SHIPSTEAD. If they should bring to you a plan to be dismembered and to be consolidated with other roads, and they could give you good security, would you loan them money for that purpose?

Mr. JONES. Would you ask that again, Senator?

Senator SHIPSTEAD. If, in your opinion, this kind of a plan would help them out and better railroad conditions, and if they could give you good security, would you loan them money for that purpose?

Mr. JONES. We would be glad to consider a loan.

Senator SHIPSTEAD. And you would be willing to send for railroad executives that you would want to buy these roads and ask them to present a plan, as you did in this case?

Mr. JONES. I would if I thought they would come in; but a lot of them will not come. It is pretty hard to get these railroad executives to trade themselves out of their jobs.

Senator SHIPSTEAD. They are like a lot of politicians and people in the various departments of the Government?

Mr. JONES. That is right. I say that seriously, Senator. It is a problem, you know. A man gets to be president of a railroad by the time he is 50 or 60 years old, and he has a short life, and when you try to trade him out of his job he is going to holler.

Senator MURPHY. Is there not also, Mr. Jones, the clash of banking houses?

Mr. JONES. Certainly. There is one banking house backing one road and another banking house backing another road. My sympathies are with the railroad men, because they are not their own bosses. There is too much banker control.

Senator SHIPSTEAD. And do you have the same sympathy for the bondholders?

Mr. JONES. Yes; a great deal.

Senator SHIPSTEAD. Many of these bonds are held by insurance companies, are they not?

Mr. JONES. Probably. I suppose they are.

Senator SHIPSTEAD. How much do you think the first-mortgage bondholders can obtain under this plan?

Mr. JONES. Senator, I do not know how much the receiver owes nor how many debts he has got, but as I understood, this $7,200,000 would be apportioned by the Federal court. We would have nothing to do with that, nor would the Associated Railways. If we paid $7,200,000, then the court would have to say who gets the money.

Senator SHIPSTEAD. Are you aware that the Interstate Commerce Commission valued this road, under the valuation of property of 1910 to 1914, and said that it could be reproduced new, less depreciation, for $36,000,000?

Mr. JONES. $36,000,000?

Senator SHIPSTEAD. Yes, and for rate-making purposes they valued it at $45,000,000.

Mr. JONES. Is it not more than that, Senator?

Senator SHIPSTEAD. The valuation for rate-making purposes was $45,000,000, and the cost of reproduction new, less depreciation, was $36,000,000. The total capital outstanding was $74,000,000, approximately.

Mr. JONES. May I make a figure or two?

Senator SHIPSTEAD. Yes.

Mr. JONES (after a calculation). That would be a little over $2,000 a mile.

Senator SHIPSTEAD. I am told that I am misinformed; that the valuation for rate-making purposes was $45,000,000. I am wrong about the $36,000,000. I know that for rate-making purposes the valuation is usually based on reproduction new less depreciation, and that I know was valued at $45,000,000.

Mr. JONES. That is a pretty big valuation, unless it has some very valuable terminals. I do not know the territory. It may be hilly; it may be expensive territory to build in. That would be $35,000 a mile.

Senator SHIPSTEAD. That was the valuation placed upon it under the valuation of 1910 to 1914, and witnesses traveled over the road and testified that it is in better condition now, the physical property, than it was when it went into the hands of a receiver. The general manager says that with the equipment they can handle 15 percent more business, and with the roadbed he can handle a great deal more traffic.

Mr. JONES. That is pretty small. A railroad that cannot do better than that cannot boast much. Fifteen percent is a pretty small margin. They have lost about half of their traffic, you see. All railroads lost about half their total income. So that is not a particularly attractive statement by the management.

Senator SHIPSTEAD. What percentage of the railroads of the country can show a better condition?

Mr. JONES. I would think most of them.

Senator SHIPSTEAD. Have you checked up on that?

Mr. JONES. No; but I think I would be willing to make a guess on it.

Senator SHIPSTEAD. Are you familiar with the testimony that has been given here, the testimony taken from the records and reports of the Interstate Commerce Commission comparing the maintenance charges on this road with other roads?

Mr. JONES. No; I am not.

Senator SHIPSTEAD. That is, with relation to its traffic density, and so forth?

Mr. JONES. No.

Senator SHIPSTEAD. And with the quality of steel of the road and the quality of ties and the roadbed?

Mr. JONES. No; I am not familiar with that.

Senator SHIPSTEAD. Well, Mr. Jones, I am sorry to have kept you so long. I know you have many things to do.

Mr. JONES. I have nothing else bothering me.

Senator SHIPSTEAD. The Senators have a few things to do, also. The relief bill is going to be considered this afternoon, and we cannot hold hearings this afternoon.

Mr. JONES. I will be glad to stay as long as you want me to.

Senator SHIPSTEAD. The Interstate Commerce Committee has called a meeting on the calendar, which makes it necessary for the Senators that are here today to attend that meeting, so we will have to cancel the scheduled meeting for tomorrow and adjourn until Tuesday morning at half past 10. Can you be back at that time?

Mr. JONES. I can be here Tuesday or Wednesday, one of the two.

Senator SHIPSTEAD. As long as you have started your testimony, we would prefer to have you on Tuesday, if that would be convenient for you.

Mr. JONES. I had an engagement out of town on Tuesday. Maybe I can change it to Wednesday. I can do one or the other.

Senator SHIPSTEAD. If it is not too inconvenient for you, it would please us very much if we could finish up on Tuesday.

Mr. JONES. I will try to do that, Senator. Maybe we can do it Tuesday morning. Do you think I will have to be here longer than the morning?

Senator SHIPSTEAD. I do not think so.

Mr. JONES. I will come as often as you want me and stay as long as you want me.

Senator SHIPSTEAD. Senator Murphy, of Iowa, would like to ask you a few questions.

Senator MURPHY. Mr. Jones, the Railway Commission of Iowa has intervened before the Interstate Commerce Commission against the approval of the plan to which the R. F. C. has given its tentative approval.

Mr. JONES. Yes, sir.

Senator MURPHY. It has done that because of projected abandonment of lines operated in Iowa, and also because higher rates to shippers will result from the necessity of joint-line traffic. The map before me, which reflects the plan to which the R. F. C. has given tentative approval, indicates the purpose to abandon some 250 miles of lines now being operated in Iowa. That is a larger abandonment than contemplated anywhere else on the system, some of which—250 miles, I may say—have already been abandoned, with the approval of the proper authority.

My interest in this hearing and in the tentative approval you have given arises from this intended abandonment of lines in Iowa and the resultant higher freight rates to our shippers in consequence of the execution of the plan. The information which has come to me, which may be credible or not, is that the reason for this projected abandonment of the line from Albert Lea, Minn., to Fort Dodge, Iowa, and on down to Angus, Iowa, is that the Associated Railways were not able to agree among themselves as to which of them should have that line.

Have you any information as to that particular point, as to whether the abandonment of this particular line, as proposed, is because of the failure of the Associated Railways to agree among themselves as to which should operate it?

Mr. JONES. I have none; no, sir.

Senator MURPHY. Was it within your knowledge that this plan did contemplate the abandonment of this line from Albert Lea down to Fort Dodge and Angus?

Mr. JONES. Senator, I have looked at the map a number of times, but I do not recall which mileage is to be taken by which road or which mileage is to be abandoned.

Senator MURPHY. As a fundamental proposition, Mr. Jones, do you subscribe to the doctrine that a line of railroad that is not operated at a profit should be abandoned?

Mr. JONES. Do I subscribe to it?

Senator MURPHY. Yes.

Mr. JONES. I think if it is given a good chance and if it finally develops that it cannot be, it has either got to be finally abandoned or subsidized.

Senator MURPHY. A railroad is a public utility, is it not?

Mr. JONES. Yes.

Senator MURPHY. Do you or do you not think that a public utility owes it to the public to operate some facilities that cannot be operated at a profit?

Mr. JONES. I do.

Senator MURPHY. By virtue of the fact that it is a public utility?

Mr. JONES. I think you have got to take the core along with the apple.

Senator MURPHY. Exactly. Are you then reconciled in your mind, considering your first statement, that if a line, after a fair trial, is not operated at a profit, it should be abandoned?

Mr. JONES. Unless there is some unusual reason to the contrary.

Senator MURPHY. Are we justified or not in assuming that necessarily the abandonment of a railway line does involve inconvenience to shippers?

Mr. JONES. Senator, what is the mileage between Fort Dodge and Albert Lea?

Senator MURPHY. One hundred and three miles.

Mr. JONES. What service would be left if that were abandoned?

Senator MURPHY. As to the technical aspect of that, I am not fully advised. As a matter of fact, Iowa, under old conditions, had no point in the State which was farther removed than 10 miles from a railroad. We were very well served. Someone who knows more than I has prompted me to say that that is a north and south line, and it reminds me that we are deficient in north and south service in Iowa, and it is a north and south line which it is proposed to abandon, and it will leave this territory that is now served without any north and south service at all.

Mr. JONES. I think, Senator, under those circumstances, it ought to be given very serious consideration.

Senator MURPHY. Mr. Jones, the proposition before this committee is the proposition to which you have given tentative approval. Our railway commission, as I have said, and our people out in Iowa feel that this plan should not be carried out. We do not feel that the facilities of the Reconstruction Finance Corporation should be em-

ployed to run this railroad "through the wringer." We had an idea that this facility was created and money made available to the R. F. C. to prevent this wringer process, and we know that the execution of this plan would start this railroad right through.

Mr. JONES. You ought to holler, then, Senator. I have not assumed authority in this matter, nor has our Corporation. The authority is with the Interstate Commerce Commission or other people. I have never gone through all this. I was never in that territory.

Senator MURPHY. I have no doubt about that, Mr. Jones, at all.

Mr. JONES. If the proper authority, the Interstate Commerce Commission, approved it, and all these other people approved it, we would be very glad to make the loan.

Senator MURPHY. I think you are lending yourselves to the purpose of dismemberment of a railroad primarily because you are convinced that there is not the brightest future before it and because it is and for some time has been generally operated at a loss as related to return on the investment. However, the fact remains that Mr. Eastman proposed to the railway executives a plan whereby they could save $100,000,000 a year in operating expenses. If we loan Government money to accomplish the dismemberment of railways, do you not think that in loaning money to railroads to keep them going we ought to seek to accomplish that other end that Government ought to seek to serve, to wit, the elimination of excess and unnecessary charges as viewed by Mr. Eastman? If we are serving the economical operation of railroads, on the one hand, by dismembering them and abandoning facilities, should we not, on the other hand, serve this economical operation by saying to them: "We will loan you this money on condition that you effect these economies which Mr. Eastman suggests you can effect by agreement among yourselves?"

Mr. JONES. Well, I am not familiar with his suggestions, but certainly if the Government is going to cooperate with the railroads in eliminating unprofitable mileage and excess mileage, then the railroads ought to cooperate with the Government to give service at the least possible cost.

Senator MURPHY. It is your view, as stated here this morning, that we have more railroad mileage than we can support?

Mr. JONES. I think we have.

Senator MURPHY. That view would necessarily be very greatly tempered, if not changed altogether, as a result of adding $100,000,000 to the net income of railways through adoption of the suggestion of Mr. Eastman, would it not?

Mr. JONES. I would have to figure to see whether $100,000,000 is enough. I do not know whether $100,000,000 is enough. What interest would that pay? That would be 4 percent on two and a half billions. What is the capitalization that is involved—about twelve billions?

Mr. OLIVER. Between twenty-six billions and twenty-seven billions.

Mr. JONES. That would not be enough. Your point is good as far as it goes; yes. I include that when I say that if the Government cooperates with the roads, then the roads must cooperate with the Government. I agree to that.

Senator MURPHY. The position in which we find ourselves, Mr. Jones, is that the only plan we have for consideration before us and

to which you have given your approval tentatively, contemplates this abandonment of lines because they do not yield sufficient, if any, net income.

Mr. JONES. I am not the court of last resort, you see.

Senator MURPHY. The Interstate Commerce Commission, of course, has to approve that?

Mr. JONES. Yes. They may not approve any of it.

Senator MURPHY. That is true. They might require somebody to operate these lines that it is contemplated by the plan should be abandoned?

Mr. JONES. That is right.

Senator MURPHY. I understand that is what the railroads themselves propose.

Mr. JONES. It is what they have agreed upon, and I would like to say here that it is the first time that I ever heard of seven competing railroads agreeing on anything.

Senator SHIPSTEAD. It must have been a pretty good plan for those seven, in order for them to agree on it.

Mr. JONES. It might be so interpreted, Senator. I think some of them were rather reluctant, even then. I will say that in justice to them.

Senator MURPHY. I will say this, Mr. Jones, that so far as I am concerned I do not subscribe to the premise that the R. F. C. should assist in putting folks "through the wringer." There is a possibility, if we can credit the testimony before us, that you can put the Minneapolis & St. Louis in the position that the Great Western is in today. You have not put that railway "through a wringer."

Mr. JONES. They have been keeping out of the wringer, Senator. Maybe we can keep this out of the wringer.

Senator MURPHY. You have not destroyed any equities in the Great Western. Whatever they were, they are about as they were. Now, M. & St. L. equities will be wiped out as a result of the adoption of this plan. Why should we wipe these equities out? If there is any salvage the bondholders can get it from operating the railroad as a unit.

Mr. JONES. Senator, there is nothing to prevent the security-holders taking this property out of receivership, if there is $40,000,000 worth of property.

Senator MURPHY. Mr. Roosevelt's testimony was that the only place they can go for that money is to Jesse Jones.

Mr. JONES. They can sell a good security now under 4 percent. Just read the financial papers every day—there has never been such a security market as there is now.

Senator SHIPSTEAD. Do you think the securities of the seven Associated Railways are good?

Mr. JONES. I think the way they would finally wind up they would be good. Otherwise——

Senator SHIPSTEAD. Do you think they could sell them?

Mr. JONES. I would not be surprised. They could sell some of them.

Senator SHIPSTEAD. If they could sell them you would not lend to them. If they were able to raise funds in any other way they would not have come to you.

Senator MURPHY. I want to say this about Mr. Jones: I think he is a great executive.

Mr. JONES. Much obliged.

Senator MURPHY. I think he is a great protector of the public welfare.

Mr. JONES. Thank you.

Senator MURPHY. I happen to be a little bit familiar with the refinancing of the Great Northern Railway. I followed through on that in the newspapers, and I saw that Mr. Jones had literally taken hold of the money changers in the temple and had booted them out. While others thundered in the index against the money changers, he went ahead quietly and showed his contempt for their methods. They had fixed up a nice, juicy 5-percent bond and a million-dollar underwriting fee in the refinancing of the Great Northern, and Mr. Jones stepped in and said, "No; this is not fair. The Reconstruction Finance Corporation will take this bond issue at 4 percent and no underwriting fee." The saving to the stockholders of the Great Northern Railway by that act was $11,000,000. He set an example which will be followed on down through the financing of other railroads; and how much he saved in the establishment of that precedent to the stockholders of other American railways we have no means at present of determining.

I should like to ask you, Mr. Jones, to approach this problem which is before us with the idea of conserving the equities that exist today rather than terminating them, with the idea rather of conserving this mileage that is going to be abandoned, except isolated bits of it, and saving jobs for men rather than terminating them and washing up the whole thing. I have no doubt at all that you are going to do that, Mr. Jones, if you can find time. The trouble is that so many of your duties are executive, necessarily; so much has to be done by others, and your decision is based on that. But we Senators here are against this plan to which you have given tentative approval. We are opposed to it because we do not believe it subserves the welfare of that section of the country. This railroad is doing better, and I think that we are just fairly entered upon a period of great recovery. I believe that is your idea?

Mr. JONES. It is.

Senator MURPHY. It is my idea, also. We have not run our farmers through the wringer. We have supported them over what we believed was an emergency. We have not run our home owners through the wringer. We kept many of our banks out of the wringer. But now it is proposed to run part of Iowa, Minnesota, and the Dakotas through the wringer. Surely we do not want that.

Mr. JONES. Senator, I appreciate the complimentary things that you said about me, and I know how sincere you are about it. What we did for the Great Northern we have done for other roads, that were not as spectacular, many of them. I believe we have been instrumental in establishing 4 percent as a fair rate for a good railroad bond. Even these 4's that are convertible are selling at a premium, probably 108 or 109. We have done it for other roads and in very large amounts, sometimes.

I have never given one minute's consideration to any plan such as we are discussing here on the Minneapolis & St. Louis that did not take care of labor and that did not take care of service for the various communities. If you have got 102 miles there that ought not to come out, then it ought not to come out, and I certainly would not favor it. But, as I say, I have never thought it necessary for me to go that far. I thought the Intersate Commerce Commission would take all the testimony at hearings. The Commission had hearings, and it will have some more. Everybody will be heard. That is their responsibility. If they approve the plan we will be very glad to make the loan, and we think we would be doing it in the public interest; otherwise we would not do it.

I think when you get through your hearings you will have clarified the situation and the atmosphere about this matter, all of which will be helpful to the Interstate Commerce Commission in reaching its decision; and if the plan can be changed to include what you are talking about, it to me, without further information, sounds rather reasonable.

Senator MURPHY. Mr. Roosevelt testified here the other day, if I remember correctly, that the doors of the R. F. C. today are closed against them——

Mr. JONES. They are not closed against anybody.

Senator MURPHY (continuing). Because you have made a tentative commitment on this Associated Railways proposition.

Mr. JONES. Let him bring in a plan and see whether the doors are closed or not.

Senator MURPHY. That is fair enough.

Senator SHIPSTEAD. Then we are to understand that if the Great Northern came to you with a plan for the refinancing of the road, and you saw that they could refund at a much lower rate of interest, and it would help the road and the owners of the road, you mean to say that you would be just as helpful and just as considerate of the bondholders and stockholders of the Minneapolis & St. Louis if they should come to you with a plan?

Mr. JONES. Yes.

Senator SHIPSTEAD. And if they have a plan that in your opinion will sustain a reasonable loan, they will be free to come on a basis equivalent with everybody else?

Mr. JONES. We could not deny it, Senator.

Senator SHIPSTEAD. Thank you very much.

(The documents referred to by the witness in his testimony are here printed in full as follows:)

ROOSEVELT & SON.
New York, March 1, 1933.

Mr. M. C. KENNEDY,
Chief Examiner, Railroad Division, Reconstruction Finance Corporation, Washington, D. C.

DEAR MR. KENNEDY: The Interstate Commerce Commission has not seen fit to advise me officially of their action with respect to the application of the receiver of the Minneapolis & St. Louis, and all I know is the scrappy information that I have picked up out of the newspapers.

I really do not feel that there is anything that I can add to my previous letter. It is quite a puzzle to know what is the right position to take with

respect to the application of the receiver of the Minneapolis & St. Louis. As I see it there are two conflicting interests and the application involved is a question of principle of much wider application than the mere question of the granting of a loan of $1,000,000 to this property. On the one side there is the question of public interest. This is a difficult question to weigh. I am advised by a great many engineers that the Minneapolis & St. Louis system, at least in part, is an indispensable unit in an adequate transportation system of the country, that millions of dollars of property is served by this railroad and by this railroad alone, and that this property would be rendered worthless if the railroad were to cease operations. I have no means of checking this information. On the other hand, with the securities, which used to represent first closed mortgages on important main-line mileage, selling at 1 or 2 cents on the dollar and with no market even for the receiver's certificates, it seems not only unfair but wholly illegal to ask the security holders to permit the issuance of continually increasing amounts of receiver's certificates which have a prior lien to the mortgage bonds.

If this problem were peculiar to the Minneapolis & St. Louis, perhaps it would not amount to much, although the question of principle would still be involved; but if earnings of today are to be our yardstick, the problem is applicable to a good deal more than half of all the railroad mileage in all of the United States, and it seems unfair to the security holders to ask them to continue to operate the property for the benefit of the shippers at continuing deficits. This raises the question as to the responsibility for the existence of these deficits. I should like to point out that the Interstate Commerce Commission is not wholly without blame and is perhaps primarily responsible for the existence of these deficits. In other words, the rate policy for a long period of years has been one of confiscating the property of the security holders of all railroads in western trunk-line territory, including this one. They have now confiscated practically everything, but it is not fair to permit them to confiscate the little that is left. If the property is essential to the shippers along the line, then they can afford to pay rates which will result in revenues which, even in these times, will make the carriers self-supporting. If the property is not essential, then there is no excuse for using the taxpayer's money to keep it running. Naturally, the security holders do not contend that there is any question in a time like this of a reasonable return on a fair valuation either for this property or for western trunk-line territory as a whole. All that I contend is that if the western trunk-line territory had been in the past permitted, or in the future will be permitted to earn a fair return on a reasonable valuation, then I believe that the net earnings of the Minneapolis & St. Louis Railroad will be very substantial; but, inasmuch as we have been denied this, in spite of all our efforts by repeated decisions and orders of the Interstate Commerce Commission, I feel that operations should cease, and it should be made clear to the shippers served by the railroad that this cessation of service is principally due to the failure of the Commission to observe the provisions of section 15 A of the Transportation Act.

The application for $1,000,000 by the receiver does not mark the end of his applications for loans. Within 6 months he will be after you again for more money. Practically all of the security holders' money having already disappeared down the sink hole, is it wise to proceed pouring unlimited sums of taxpayer's money down the same sink hole? Of course, if satisfactory and binding assurances of the Interstate Commerce Commission could be obtained, there is no question, in my opinion, that the public interest would demand the granting of this loan; but lacking such assurance it seems to me equally clear that the loan should not be granted.

Very truly yours,

PHILIP J. ROOSEVELT.

P. S.—I am writing this letter personally and not as chairman of the reorganization committee. In that event, perhaps I should say that I am personally interested in very substantial amounts of bonds of the system, as well as a representative in a fiduciary capacity of some of the receiver's certificates.

P. J. R.

ROOSEVELT & SON,
New York, February 9, 1933.

Re Finance Docket 9832.

In the matter of the application of the receiver of Minneapolis & St. Louis Railroad Co. for a loan from Reconstruction Finance Corporation to pay vouchers awaiting payment, certain principal and interest on equipment trusts and taxes.

INTERSTATE COMMERCE COMMISSION,
RECONSTRUCTION FINANCE CORPORATION,
Washington, D. C.

DEAR SIRS: The reorganization committee of Minneapolis & St. Louis Railroad Co., which is composed of the chairmen of the committees representing the various issues of mortgage bonds of said railroad company, opposes the issue of additional receiver's certificates at this time and for the purposes referred to in the receiver's application. The committee is fully cognizant that the consequence of a denial of the receiver's application may be cessation of operations, but it feels that the reasons for its position are so important that it should explain them at some length and respectfully calls your attention to the following:

When the reeciver applied to the United States district court in Minneapolis, which is in charge of the receivership, for instructions as to making an application for the loan, the reorganization committee at first advised the court that it was opposed to the proposed issue of receiver's certificates. Subsequently believing that the proper forum for discussion of these matters was before your honorable body the reorganization committee advised the court that it had no objection to the court instructing the receiver to apply for the loan, but reserved the right, at the time that application should be made to the Interstate Commerce Commission and Reconstruction Finance Corporation, to advise them of its position with respect thereto.

At a meeting of the reorganization committee on January 26, 1933, at which the following were present:

Walter H. Bennett, chairman of committee representing Minneapolis & St. Louis consolidated 5-percent bonds and Des Moines & Fort Dodge 4-percent bonds.
Edward C. Delafield, chairman of committee representing Merriam Junction and Albert Lea bonds.
Jules S. Bache, chairman of committee representing Minneapolis & St. Louis first 4-percent bonds and Iowa Central 4-percent bonds.
George E. Roosevelt, chairman of committee representing Iowa Central first-mortgage 5-percent bonds.
William P. Hawley, chairman of committee representing Minneapolis & St. Louis refunding and extension 5-percent bonds.
Philip J. Roosevelt, chairman of the reorganization committee for the Minneapolis & St. Louis Railroad.

as well as, by invitation—

W. H. Bremner, receiver for the Minneapolis & St. Louis Railroad.
C. W. Wright, counsel for receiver.
Donald C. Swatland, of the firm of Cravath, de Gersdorff, Swaine & Wood.
Walter W. Colpitts, of the firm of Coverdale & Colpitts.

The following resolution was moved, seconded, and unanimously carried:

"*Resolved*, That, in the event that the court authorizes the receiver to apply to the Interstate Commerce Commission and the Reconstruction Finance Corporation for a loan at this time, the chairman of the reorganization committee be directed to call to the attention of the Interstate Commerce Commission and the Reconstruction Finance Corporation the facts set forth in the chairman's letter to Judge Booth of December 29, 1932, and the committee's opinion as to the causes of the situation therein set forth, and further that the committee is opposed to the granting of any further loans to the property at this time unless some assurance can be had that such loans can be repaid."

73496—36——22

In accordance with the foregoing resolution, I desire to advise you of the fundamental conditions upon which, in the opinion of the reorganization committee, the proposed loan can properly be made.

The $1,024,977.80 of new obligations proposed to be issued by the receiver, secured by a lien upon the trust estate prior to the mortgages thereon, will substantially double the amount of receiver's certificates already outstanding which were not paid when due.

It is apparent from the receiver's petition to the court that the receiver's operations are not now earning the expenses of administering the trust estate, and it is obvious that, unless the earnings of the property materially improve, there is no reasonable expectation that the principal or interest of the proposed receiver's certificates can be paid. In these circumstances, the committee feels that further borrowing can only postpone, and cannot avoid, the inevitable consequences of the present inadequate earnings.

While existing business conditions have undoubtedly contributed to the present condition of the railroad, the reorganization committee is convinced that the total lack of earnings is not due to economic conditions, inefficient management, or any inherent failure to render service by the system, its management, or the receiver. Since the passage of the Transportation Act, the gross earnings and net earnings available to pay bond interest of the Minneapolis & St. Louis Railroad have been:

Year	Total operating revenue	Net earnings available for bond interest	Year	Total operating revenue	Net earnings available for bond interest
1921	$16,185,000	$310,000	1929	$14,701,000	$1,827,000
1922	15,558,000	1,035,000	1930	12,726,000	640,000
1923	16,606,000	1,214,000	1931	10,295,000	148,000
1924	15,097,000	[1] 705,000	1932 (9 months)	5,811,000	[1] 391,000
1925	15,074,000	425,000			
1926	14,734,000	313,000	Total, 11 years and 9 months	165,649,000	[2] 5,686,000
1927	14,413,000	279,000			
1928	14,450,000	591,000			

[1] Deficit.
[2] 3.43 percent of the gross.

The reorganization committee understands, of course, that there is no obligation, expressed or implied, in the Transportation Act that rates be regulated so as to provide adequate net earnings for any particular railroad system; but, in this connection, the committee points out that the rate of return, on property value, as shown by the testimony in *Ex parte 87*, had been—

Class I railways of the western district

	Percent
1921	2.91
1922	3.42
1923	3.93
1924	3.86
1925	4.12

and that the rate of return, on Interstate Commerce Commission values, in the western trunk-line territory, as shown by testimony in the class-rate division, Interstate Commerce Commission, Docket 17000, had been—

Rate of return on eight railroads in western trunk-line territory, Interstate Commerce Commission valuation

	Percent
1921	2.04
1922	3.13
1923	3.61
1924	3.47
1925	3.68
1926	3.74
1927	3.35
Seven-year average	3.29

After all, net earnings are nothing but the difference between gross receipts on the one hand and expenses on the other. In this connection we are advised by the receiver that in 1932 about 64 percent of his gross operating revenues was required to pay wages. We assume that the Commission is entirely familiar with this state of facts, and we submit that the large and growing percentage of the carriers' gross revenues being consumed by wages and taxes and not the relatively small percentage of the carriers' gross revenues to pay interest on debt and dividends on stock is the key problem not only of this carrier but of all railroads. As you know, the carriers, as a whole, if judged by the standards of service rendered per dollar of capitalization or by the standard of replacement or historical cost are not overcapitalized or overbonded.

During the summer of 1932 the reorganization committee formulated a plan for the reorganization for Minneapolis & St. Louis Railroad Co., which contemplated the acquisition of the properties now in receivership by a new company, free of all existing liens, and the discharge of the receiver's obligations and certain prior liens through a loan from the Reconstruction Finance Corporation to be secured by new first-mortgage bonds of the reorganized company, ranking ahead of the new securities to be issued to the present bondholders. Representatives of the reorganization committee discussed such plan with certain representatives of the Interstate Commerce Commission and of the Reconstruction Finance Corporation.

As a result of such discussion it was their belief that the Reconstruction Finance Corporation and the Commission would be sympathetic to a reorganization, but they were advised that the Commission would approve the necessary loan by Reconstruction Finance Corporation only if the new company were able to show probable earnings sufficient to justify the loan. After careful consideration of the results of current operations of 1932, and a review of the earnings of the previous years, the reorganization committee felt that it was not in a position honestly to state to investors and the governmental authorities that even the minimum fixed charges of the new company contemplated by the plan would ever be earned, unless the committee could have some assurance that definite steps would be taken by the Commission to improve materially the earnings, not only specifically of the Minneapolis & St. Louis Railroad, but of the entire territory once defined as Western Trunk Line territory, i. e., the territory lying west of the Chicago-St. Louis line and north and east of the Missouri River. For this reason the plan has not been promulgated.

The reorganization committee submits that the identical question involved in the consideration of a reorganization to be effected through a loan by Reconstruction Finance Corporation, is involved in the pending application for authority to issue additional receiver's certificates. The reorganization committee earnestly urges that no loan should be made except in connection with a reorganization which would permit the termination of the long period of receivership and litigation and the union of all interests in the property into single ownership, which is indispensable for successful operation in the interest of the public and the security holders and for the decision of questions as to the road's future. The reorganization committee ernestly urges that, in no event is it lawful and right, or in the public interest, that operations be continued, whether under receivership or in connection with a reorganization by agreement of security holders or under some statutory reorganization to be devised by legislation or administrative fiat, where such operations can be continued only for a little time and through borrowings that dilute and displace existing liens contracted in good faith, and there is no reasonable likelihood that the earnings will ever be sufficient to repay such borrowings.

From the above it is apparent that the Minneapolis & St. Louis Railroad, although producing operating revenues of more than $165,000,000 during the last 12 years, has saved for bonds interest only 3.43 percent of its gross earnings. The reorganization committee believes that any enterprise in which the margin of profit for services rendered (quite apart from any question of a fair return on a reasonable valuation) is so small, is not not being conducted as a business, but rather as a charitable enterprise for the purpose of paying wages and taxes that are not now being earned and the expense of a transportation service which is not only compensatory but at the present time not self-supporting. Such an enterprise cannot permanently endure, and we believe that it will do no good but much harm to postpone through further borrowing the time when this fact is realized by the public, the Congress, and the regulatory bodies charged with the administration of the laws relating to the railroads.

Since it is apparent from a review of the operations of this carrier over a period of years that it has not been able to earn a reasonable return for the service which it has rendered under any scale of rates which the Commission has been willing to approve. (See Docket Nos. 64 I. C. C. 85, 80 I. C. C. 362, 68 I. C. C. 676; 17,000 sub. no. 2, 17,000 sub. no. 9, 17,000 sub no. 7, 164 I. C. C. 1, 113 I. C. C. 25, 113 I. C. C. 27–30, 176 I. C. C. 1, 164 I. C. C. 619, 178 I. C. C. 539, 179 I. C. C. 215.) And since at the present time there is apparently no reasonable basis for expecting that this situation will be changed, the reorganization committee believes that it is unfair, unlawful, and contrary to the public interest to postpone through prior lien borrowings the time when operations must cease, thereby consuming what little value remains in the property for the investor. The committee is convinced that this process will adversely affect the securities of other carriers which, like the Minneapolis & St. Louis, are not even earning operating expenses and constitutes a direct appropriation of the property of the investors without due process of law.

In the circumstances the reorganization committee earnestly submits that if gross revenues cannot be increased or expenses reduced no further debt should be incurred and that the only proper course open is to cease operations and to permit the owners of the property to salvage what remains of their investments through sale of parts of the railroad to other carriers and liquidation of the remaining assets.

The security holders of this property, acting through this committee, wish to point out to you what they consider the necessary prerequisites to the contracting of additional debt by the Minneapolis & St. Louis system:

1. The present outstanding receiver's certificates must be paid.
2. Adequate provision must be made which will be satisfactory to the holders of the small divisional lien known as the Albert Lea bonds.
3. Adequate provision must be made which will be satisfactory to the preferred claims.
4. An earning power sufficient to support the capitalization of the new company and assure the obtaining of the requisite capital in the proper form (a proper division between bonds and stock) must be assured.

The reorganization committee stands ready at any time to consult with your honorable bodies with respect to meeting these necessary prerequisites, but failing their provision it submits that the contracting of additional debt at this time would be not only financially unjustifiable but contrary to the public interest and that the alternative should now be faced and the locomotives ordered in the roundhouses.

Very truly yours,

PHILIP J. ROOSEVELT.

REORGANIZATION COMMITTEE FOR MINNEAPOLIS & ST. LOUIS RAILROAD CO.

EXECUTIVE COMMITTEE

F. J. Lisman, chairman.
Walter W. Colpitts.
Philip Roosevelt.
Cravath, De Gersdorff, Swaine & Wood, counsel.
H. J. Lowenhaupt, secretary, room 1635, 42 Broadway, New York City, telephone Digby 4–8320.

COMMITTEE

J. S. Bache, chairman, committee, Iowa Central 4's 1951.
Walter H. Bennett, chairman, committee, Minneapolis & St. Louis consolidated 5's, 1934; chairman, committee, Des Moines & Fort Dodge 4's, 1935.
Walter W. Colpitts, Messrs. Coverdale & Colpitts.
W. P. Hawley, chairman, committee, Minneapolis & St. Louis refunding and extension 5's, 1962.
F. J. Lisman, member, committee, Minneapolis & St. Louis consolidated 5's, 1934, and Des Moines & Fort Dodge 4's, 1935.
James Lee Loomis, chairman, committee, Minneapolis & St. Louis refunding 4's, 1949.
George E. Roosevelt, chairman, committee, Iowa Central first 5's, 1938.
Philip Roosevelt, Messrs. Roosevelt & Son.

NEW YORK, *May 26, 1936.*

Mr. JOHN W. BARRIGER, III.
Reconstruction Finance Corporation, Washington, D. C.

DEAR MR. BARRIGER: I herewith enclose copy of letter I am sending to Mr. Clarence Miller who, as you know, is counsel for the American Short Line Railroad Association and also is counsel to the Shipstead committee.

With best regards.

Sincerely yours,

F. J. LISMAN.

Senator SHIPSTEAD. This committee has no counsel.

MAY 26, 1936.

Mr. CLARENCE MILLER,
Union Trust Building, Washington, D. C.

DEAR MR. MILLER: The newspapers carried the report of Mr. McElwee's testimony yesterday before the Shipstead subcommittee on Minneapolis & St. Louis.

While, of course, I have not the slightest knowledge of what the conversation between Mr. McElwee and Mr. Barriger might have been, I do have definite knowledge of what preceded the agreement in accordance with which the R. F. C. was to make a loan for the purpose of helping the bondholders committees representing various divisional liens of the road to reorganize the M. & St. L.

Mr. Barriger was present at that time in Washington and thoroughly cooperated with me toward achieving my purpose; that is, of reorganizing the road in the interest of the security holders, at the same time protecting the proposed loan of the R. F. C.

As to the statement that the suggested loan to the Associated Railways was to be helpful to Mr. Prince, I can only say this is absurd on the face of it because this arrangement could not possibly benefit Mr. Prince, inasmuch as it would give very little to any of the bondholders and nothing to the refunding and extension mortgage, in which Mr. Prince, I think, has the largest interest.

It would be perfectly convenient for me to be in Washington on Wednesday next, and if the committee wishes me to do so I will be very glad to testify as to what I know about this situation.

Very truly yours,

F. J. LISMAN.

MAY 25, 1936.

Mr. L. C. SPRAGUE.
Care of Mayflower Hotel, Washington, D. C.

DEAR MR. SPRAGUE: I have just seen the report on the Dow-Jones news ticker of the sensational Mr. McElwee letter to the effect that Barriger worked out the dismemberment plan for the Minneapolis & St. Louis in order to save the interests of Mr. F. H. Prince, of Boston.

I rather deplore this publicity, and I am afraid it will do us more harm than good, because I feel pretty sure that it is nonsense. How will a plan which leaves less than $3,000,000 altogether to be divided among the various securities protect Mr. Prince's interests? How can it? This sort of irresponsible sensational statement is pretty sure to hurt all those of us who are opposed to the dismemberment plan.

Sincerely yours,

PHILIP J. ROOSEVELT.

P. S.—I am sending a copy of this letter to Mr. J. W. Barriger, 3d.

[Telegram]

CHICAGO, ILL., *May 27, 1936.*

JESSE H. JONES,
Chairman, Reconstruction Finance Corporation:

The Associated Railway Co. and the roads interested in the plan to purchase the property of the M. & St. L. now pending before the Interstate Commerce Commission in Finance Docket No. 10947 have authorized me to say that if after

study of the applicability of recent dismissal-wage agreement between railroads and labor representatives to the purchase of railroad property at foreclosure sale and the extent from a financial standpoint of the additional liability to be assumed as a result of such application it is concluded to proceed with the pending plan as so modified and the Interstate Commerce Commission approves the plan, the dismissal-wage agreement will be applied to M. & St. L. employees affected by the carrying out of the plan.

RALPH BUDD.

RECONSTRUCTION FINANCE CORPORATION,
Washington, May 28, 1936.

Hon. HENRIK SHIPSTEAD,
United States Senate, Washington.

MY DEAR SENATOR SHIPSTEAD: On May 25, Mr. James F. McElwee, of Peoria, Ill., appeared before your committee and reiterated certain statements regarding me which he had previously made in a letter to Herbert F. Horner, of the M. & St. L. executive defense committee, under date of April 4, 1936, copy of which letter was introduced in the proceedings.

The conversation which Mr. McElwee referred to in his letter took place in the office of Mr. Richard Hackett in Chicago on December 19, 1934. Mr. Hackett was present during the entire conversation.

I made no such statements as Mr. McElwee has attributed to me. Mr. Hackett, who was present throughout the meeting and who desires to be heard by your committee, will verify this.

Furthermore, his statement regarding my working for the personal interests of Mr. Prince is manifestly ridiculous. Mr. Prince holds bonds secured by a mortgage on the South Dakota extension. Under the plan of the Associated Railways the South Dakota extension would be largely abandoned, and Mr. Prince's holdings substantially wiped out. So far from benefiting from the plan suggested, he has reason to oppose it, if any security holder has.

My views on the present position and the future of the M. & St. L. were fully set forth at the recent hearings in Minneapolis on the Associated Railways plan, and since a full transcript of my testimony at that hearing has been furnished your committee I need not repeat them here.

Mr. E. L. Oliver, research director of the Brotherhood of Railway Clerks, commented before your committee on Tuesday about my attendance at the Minneapolis hearing. I attended that hearing at the request of representatives of the Associated Railways Co. as its witness. In obtaining permission from the R. F. C. to appear, it was understood that I would be speaking solely for myself and not for the Corporation. Associated Railways Co. agreed to reimburse the R. F. C. for my expenses and such part of my time as I was away from my duties, regardless of whether or not a loan is ever made by the R. F. C.

Very truly yours,

JOHN W. BARRIGER, 3D,
Chief Examiner, Railroad Division.

(Whereupon, at 1:30 p. m., the subcommittee adjourned until Tuesday, June 2, 1936, at 10:30 a. m.)

(The following letters and statements were subsequently received by the committee:)

WORKS PROGRESS ADMINISTRATION,
DISTRICT NO. 6,
Peoria, Ill., June 1, 1936.

Hon. HENRIK SHIPSTEAD,
United States Senate, Washington, D. C.

DEAR SENATOR SHIPSTEAD: I have a copy of the Minneapolis Tribune, dated Friday, May 29, 1936, in which Mr. Barriger states that the conversation, referred to by me in my letter to Mr. Horner, took place in the office of Richard Hackett in Chicago on December 19, 1934, and that Mr. Hackett was present during the entire conversation, and he further states that he made no such statements as I attributed to him, and that Mr. Hackett, who was present throughout the meeting and who desires to be heard by your committee, will verify this.

I want to call your attention to the fact that the conversation referred to in my letter did take place in Mr. Hackett's office; and if he does appear, I think you should bring out that Mr. Hackett is Mr. Prince's Chicago representative, in charge of the stockyards district, and that he is in daily communication with him, several times each day, by long-distance telephone, and that Mr. Hackett's anxiety to deny Barriger's statement is also for the purpose of protecting Barriger and Mr. Prince.

For your further information, I want to lay before you the entire circumstances of the meeting: I was in Mr. Hackett's office, and he advised that Mr. Barriger was in the waiting room and asked me if I cared to meet him. I told him that I was ready to go, but he wanted me to wait and have a talk with Barriger.

We conversed only in a general way, then some other party called to see Mr. Hackett and he left the room in which we were and went into another room and had a conversation with the other party, which lasted probably 15 or 20 minutes. It was during that time that Mr. Barriger and I had our conversation. We discussed the matter further after Mr. Hackett returned, but he was not present during the entire conversation. I discussed the matter later with Mr. Hackett, and told him that I was appalled at the statement Barriger made, and he tried to pacify me by telling me that Mr. Barriger was only trying to impress upon me the fact that the only way that Mr. Prince could come out whole on his investments in the M. & St. L. Railroad was by purchasing it for $3,000,000.

It seems to me that the important points to check up are these: The time that the promise of a loan was made to Mr. Lisman, and find out whether or not Mr. Barriger was in Denver at that time; then, to check up and find out whether or not it was after his return that the dismemberment plan was introduced.

This should prove very conclusively whether or not my statements are true.

Very truly yours,

JAS. F. MCELWEE.

MAY 29, 1936.

Mr. JESSE JONES,
Chairman of the Reconstruction Finance Corporation,
Washington, D. C.

DEAR SIR: I am delighted with the reports in this morning's New York Times about your testimony before Senator Shipstead's subcommittee yesterday. If you have been correctly reported, it means that the door is not closed in the face of the security holders; it means that they may be given an opportunity to preserve their equities in the property.

I have been actively engaged in endeavoring to prepare a plan of reorganization to submit to you, and Mr. Frederick H. Prince has definitely committed himself that if you will lend $5,000,000 to a new company to lift the receivership, he will underwrite $1,000,000 additional for an operating company to operate the property once the receivership has been lifted. I am enclosing some papers showing the details of the new set-up.

I would like to call your attention to the great changes that have taken place since the plan for dismemberment of the property was first suggested. As you pointed out yesterday, my own position in February 1933 was that no money should be advanced to this property having a lien senior in lien to the various defaulted bondholders except in connection with a reorganization. In spite of the changes that have taken place, I still have that point of view, but I am compelled to admit that when the plan of the Associated Railways was first considered, in October 1934, it seemed to me to have much more merit than it seems to have today for two reasons: In the first place, the entire economic condition of the country has enjoyed an improvement and certain statistical signs seem strongly to indicate that this improvement is likely to go very much further; in the second place, new receivers for the property were appointed on January 1, 1935. The operating coreceiver, Mr. L. C. Sprague, has furnished the property with what it has needed for at least a dozen years or more, namely, first-class operating management. In the light of these two developments, do you not agree with me that it might perhaps be wise to reexamine the Associated Railways plan and see whether conditions have not so changed as to render it in the public interest that the system be reorganized as a unit?

I am afraid that, if you were correctly reported in the New York Times, you were slightly misinformed about the inability of the security holders to agree on a reorganization plan in 1934. All the security holders junior in lien to the receiver's certificates, preferred claims and Albert Lea bonds have agreed upon a formula and upon ratios in which they will accept new securities under a plan of reorganization. These ratios embodied in the enclosed papers which outline the plan that Mr. Prince is willing to assist in underwriting subject to the Reconstruction Finance Corporation making a loan of $5,000,000.

This plan for reorganizing the system as a whole would seem to me to have the following advantages:

In the first place it calls on the Reconstruction Finance Corporation for an advance of only $5,000,000 as against $7,200,000 called for under the Associated Railways plan; in the second place $1,000,000 of new private capital is interested in the property; in the third place there will be no such dislocation of transportation service as is proposed under the Associated Railways plan; and in the fourth place the men on the pay roll are pretty well assured their jobs.

In order that you may be assured that Mr. Prince is thoroughly familiar with everything I am doing, I have asked him to countersign this letter.

Can you let me know promptly whether the Reconstruction Finance Corporation will, subject to the approval of the court and the Interstate Commerce Commission, agree to advance us $5,000,000 to reorganize the property in accordance with the plan outlined in the enclosure.

Very truly yours,

P. J. R.

P. S.—I am sending a copy of this letter to Senator Shipstead, of the subcommittee of the Interstate Commerce, so that he may include it in the records of his committee's hearings if he sees fit.

The following endorsement appears in Mr. Prince's handwriting:

"I should be glad to go in on the enclosed basis with the understanding about the income bonds.

"FREDERICK H. PRINCE."

In order to lift the receivership of the Minneapolis & St. Louis Railroad it is proposed that two new companies be formed. The capitalization of the new company which will own the property will be as follows:

Name: Minneapolis-St. Louis Railroad Co.

First-mortgage bonds bearing 4-percent interest, due in 10 years, and to be given to the Reconstruction Finance Corporation as security for a loan in the amount of $5,000,000.

Adjustment income mortgage bonds, approximately $12,000,000.

Capital stock shares of no-par value (see below) 120,000.

The capitalization of the new company which will operate the property will be:

Name: Minneapolis-St. Louis Railway Co.

Capitalization, 10-year notes bearing 4½-percent interest, callable at par after 5 years, $1,000,000.

This money to be underwritten by Mr. F. H. Prince of Boston.

Stock: Nominal in amount, to be owned by Mr. Prince.

The Minneapolis-St. Louis Railway Co. will lease and operate all the property acquired in lifting the receivership by the railroad company, for a term of 99 years, paying as rental to the railroad company its entire net earnings, minus the interest charges and other corporate expenses of the operating company (the Minneapolis-St. Louis Ry. Co.).

The stock of the railroad company will be held entirely by voting trustees, subject to an option to the holder of each adjustment mortgage bond to buy 10 shares at $10 per share.

In consideration of Mr. Prince underwriting $1,000,000 in connection with this reorganization, he is to receive $1,000,000 par value of the adjustment-mortgage bonds of the railroad company.

The first-mortgage bonds of the railroad company are to be authorized in the amount of $15,000,000, but no additional bonds other than the $5,000,000 of series A bonds to be presently issued to the Reconstruction Finance Corporation may be issued without the consent of the Reconstruction Finance Corporation as long as the property is in any way indebted to the Reconstruction Finance Corporation.

Minneapolis-St. Louis Ry. Co.

[To F. H. Prince, or securityholders who pay their assessment, $1,000.000 4½ percent notes]

Issue	Amount of issue	Amount of notes to be received by securityholders paying their assessment in addition to adjustment bonds of the railroad company
Minneapolis & St. Louis consolidated 5's	$5, 282, 000	$275, 000
Iowa Central first 5's	7, 650, 095	333, 000
D. M. & Fort Dodge 4's	3, 072, 000	110, 000
Minneapolis & St. Louis refunding 4's	13, 244, 000	192, 000
Iowa Central 4's	7, 156, 000	44, 000
Minneapolis & St. Louis extension 5's	7, 882, 000	46, 000
Total, 4½-percent notes		1, 000, 000

NOTE.—A holder of one Minneapolis & St. Louis consolidated 5-percent bond who pays his assessment of $52 will receive a total of $540 adjustment mortgage bonds (carrying the right to subscribe at $10 per share to 5.4 shares of stock) and $52 4½-percent notes of the operating company, Minneapolis-St. Louis Ry. Co.

Minneapolis & St. Louis R. R. Co.

Issue	Amount of issue	New adjustment mortgage bonds if no assessment paid	Additional adjustment bonds if assessment paid; otherwise to underwriters	Approximate assessment per $1,000
Minneapolis & St. Louis consolidated 5's	$5, 282, 000	$1, 711, 000	$1, 141, 000	$52. 00
Iowa Central first 5's	7, 650, 095	2, 672, 000	1, 382, 000	44. 00
D. M. & Fort Dodge 4's	3, 072, 000	685, 000	456, 000	36. 00
Minneapolis & St. Louis refunding 4's	13, 244, 000	1, 195, 000	797, 000	14. 40
Iowa Central 4's	7, 156, 000	274, 000	183, 000	6. 40
Minneapolis & St. Louis extension 5's	7, 882, 000	286, 000	190, 000	5. 80
		6, 223, 000	4, 149, 000	
If no assessment paid			6, 223, 000	
To F. H. Prince as fee for underwriting			1, 000, 000	
To Merriam Junction and Albert Lea bonds for 20 percent principal			190, 000	
To preferred claims for 25 percent of principal			438, 000	
Total			12, 000, 000	

Disposition of cash:	
Cash to be received from Reconstruction Finance Corporation	$5, 000, 000
Cash from proceeds of 4½-percent notes of railway company	1, 000, 000
Total	6, 000, 000
Pay receivers' certificates in full	1, 185, 000
Not to exceed 80 percent principal Merriam Junction and Albert Lea bonds	760, 000
Not to exceed 75 percent principal preferred claims	1, 312, 000
Total	3, 257, 000
Balance of cash (for court allowances, equipment, additions and betterments, working capital, etc.)	2, 743, 000

UNITED STATES SENATE,
Washington, D. C., June 1, 1936.

MR. PHILIP ROOSEVELT,
New York City.

DEAR MR. ROOSEVELT: In regard to the plan of reorganization for the Minneapolis & St. Louis Railroad, I will say that in my opinion the general principle involved is correct and the courage of the bondholders in facing reality and accepting $12,000,000 in bonds of the kind suggested in the plan is commendable.

However, I cannot fail to run the risk of being presumptuous by suggesting that if the bondholders would have applied for a loan of $6,000,000 from the Reconstruction Finance Corporation in order to eliminate the loan of $1,000,000 which calls for a fee of $1,000,000, for underwriting, I would have liked it better. The underwriter of a $1,000,000 loan must have figured that it was a good loan or he would not make it at all. If it is a good loan for a private citizen of the shrewdness of Mr. Prince it ought to be good enough for the Reconstruction Finance Corporation to add to their $5,000,000 suggested loan.

However, it is the bondholders property and not mine. The bondholders apparently have done their share. If the Reconstruction Finance Corporation would do the right thing they would investigate the possibility of making a loan of $6,000,000 in order to eliminate that $1,000,000 fee. They did that in the case of the Great Northern Railroad. After having the case of the Great Northern called to Mr. Jones' attention while he was on the stand, I asked him whether if the bondholders of the Minneapolis & St. Louis would come to him with a plan if he then would be just as helpful and considerate of the bondholders and stockholders of that railroad as he had been to the bondholders and stockholders of the Great Northern and his answer was "yes."

Under the proposed plan the bondholders will have an opportunity to put $1,200,000 into stock, which I think they ought to do. That would be an evidence of their good faith in the property. I think the security of the loans under present conditions and management have been greatly underestimated. The bondholders have been harshly dealt with and are entitled to every saving that can be made.

Not being a bondholder you will understand that my activities are entirely in behalf of the public interest. My sole concern is to save the road as an operating concern in order that it may render service to the communities and keep men employed.

With kindest regards, I am,

Yours sincerely,

HENRIK SHIPSTEAD.

Mr. PHILIP J. ROOSEVELT, JUNE 2, 1936.
New York City.

DEAR MR. ROOSEVELT: In regard to the reorganization of the Minneapolis & St. Louis Railroad, I beg leave to submit certain observations as follows:

The plan offered by your committee, in my opinion, is far better than the plan of the Associated Railways and seems to me is so much better that it ought to stop further consideration of the Associated Railways' plan. On the other hand the plan presented by your committee has some serious defects that I think can be eliminated in view of the knowledge we now have.

The plan of the Associated Railways was based on the assumption that the Minneapolis & St. Louis Railroad had no credit, that its physical condition as to roadbed and equipment was of such a character that it could not even pay its operating expenses, and that in the public interest the road must be dismembered and taken over by the Associated Railways.

It seems to me that the offer of a loan of $1,000,000 by Mr. Prince has dissipated that theory. Certainly Mr. Prince can be accepted as an expert on railroad credit. In offering to make a loan of $1,000,000 in addition to the $5,000,000 proposed by the Government, he not only shows assurance that the Government loan will be paid but that his $1,000,000 cash loan will also be paid. He does even more than that. In demanding a $1,000,000 bond as a bonus for his cash loan of $1,000,000, he indicates that he is confident that the $1,000,000 income adjustment bond will be paid. That bond comes out of the $12,000,000 issue of income-adjustment bonds and if that bond is found to be good then automatically the other $11,000,000 will be good also. It then becomes clear that Mr. Prince has no doubt that the first $6,000,000 loaned by the Government and himself will be paid and also the additional $12,000,000 in bonds against the property, making a total of $18,000,000 of good securities.

Having established that credit your committee representing the bondholders should have no difficulty in borrowing the entire amount from the Reconstruction Finance Corporation and thus eliminate paying a bonus of $1,000,000. In addition to that such a plan would have the advantage of keeping control of the railroad in the hands of its owners. The bondholders, if necessary, could issue the 120,000 shares at $10 a share, to raise another $1,200,000, if needed.

Some such reorganization ought to be capable of accomplishment without a bonus in adjustment bonds to anyone, without stock ownership and control in one individual, and very likely without a complex dual corporate set-up (separate owning and operating companies), the exact necessity for which are not readily apparent, though their purposes are not altogether obscure. Very likely the railroad could be reorganized in bankruptcy or under the final decree, for that matter, with less than $6,000,000. Recently the amount of receiver's certificates outstanding has been reduced 15 percent to about $1,000,000. They will likely be further reduced by net earnings by the end of the year. If $500,000 of private capital were then made available together with $4,500,000 or $5,000,000 of Reconstruction Finance Corporation funds, the reorganization of the property as a unit could soon be an accomplished fact.

Such a plan would carry out the policy and principle involved in refunding the Great Northern bond issue, where I understand the rate of interest was to be 5 percent on an issue of upward of $100,000,000, with an additional fee of $1,000,000 for underwriting. Mr. Jones of the Reconstruction Finance Corporation at the hearing said that if the bondholders would come with a plan of reorganization he would give them the same sympathetic treatment that he gave the stockholders and bondholders of the Great Northern. It would seem to me that that promise of Mr. Jones and the now established credit of the Minneapolis & St. Louis opens the door for your committee to present an amendment to your application for a loan.

By the way, the interest of the employees, in my opinion, is equal to that of the bondholders. Their interest has been manifested throughout the hearings and there is at least a possibility that if the leaders of their organizations were approached by the representatives of the bondholders they might cooperate in raising the $1,200,000 suggested as the necessary operating capital. These organizations are very substantial concerns and probably have funds available for such an investment. Such cooperation between the bondholders and the employees with perhaps the further assistance of the business leaders of the communities affected would, in my judgment, be a most happy solution of this perplexing problem.

This plan I respectfully submit to you for your consideration in the hope that it will not seem presumptious. I am impelled by a deep concern for the public interest in this matter and that justice and equity shall be done to the property, to the bondholders, to the community served by the railroad, and to the men employed.

Yours sincerely,

HENRIK SHIPSTEAD.

RECONSTRUCTION FINANCE CORPORATION,
Washington, June 3, 1936.

HON. HENRIK SHIPSTEAD,
Chairman, Subcommittee of Committee on Interstate Commerce,
United States Senate, Washington, D. C.

DEAR SENATOR SHIPSTEAD: I enclose copy of a letter which I am sending Mr. Philip Roosevelt, analyzing and replying to his plan for reorganizing the Minneapolis & St. Louis Railroad.

I am sure that you and other Members of Congress who have been interested in the Minneapolis & St. Louis situation want the best solution that can be worked out, and if a better plan can be evolved than the one now before the Commission our Corporation will give it every consideration.

Sincerely yours,

JESSE H. JONES, *Chairman.*

RECONSTRUCTION FINANCE CORPORATION,
Washington, June 2, 1936.

Mr. PHILIP J. ROOSEVELT,
Roosevelt & Son, New York City.

DEAR MR. ROOSEVELT: Your letter of May 29, presenting a plan for reorganizing the Minneapolis & St. Louis, copy of which plan you enclose, has been given careful consideration by our board. Our analysis of the plan follows:

(*a*) It gives control of the road for 99 years to an operating company with no capital except the $1,000,000 it proposes to borrow at 4½ percent interest,

on which will be a first charge on any profits the road may earn after actual operating expenses.

(*b*) The operating company will have no responsibility except to operate the road as best suits the purposes of those in charge of it for this very long period, making the road a pawn subject to abuses and manipulations that should not be tolerated.

It is fair to say in this respect that we do not question the motives of Mr. Prince or those who may be associated with him in lending the $1,000,000 to the operating company, but 99 years is a long time, and our memories need not run very far back to illustrate my point.

(*c*) The device of giving the Reconstruction Finance Corporation a first mortgage on the railroad and Mr. Prince a first lien on the income of the road for interest on his loan of $1,000,000 to the operating company makes the first mortgage in effect a second mortgage.

(*d*) The $1,000,000 loan to the operating company, underwritten by Mr. Prince, not only gets 4½ percent interest as a first charge on the road's earnings ahead of the first mortgage held by the Reconstruction Finance Corporation but it also gets a bonus of $1,000,000 4½-percent income bonds of the railroad company, and all of the capital stock of the operating company, a rather heavy toll for a loan of $1,000,000.

The Reconstruction Finance Corporation could hardly be expected to look with favor on making a loan in cooperation with any plan embodying the principles you propose. It makes entirely too easy practices employed all too often with respect to some of our railroads in times past.

Your plan is a delusion in that it holds out false hopes to everyone interested in the road.

(*a*) The territory served by the road is led to believe that the entire mileage of the road will be operated as an independent system, capable of maintaining itself in a proper manner as to facilities and service, whereas you propose to provide only $1,000,000 so-called working capital, and the interest on that is to be a first charge on the earnings of the property.

(*b*) There is no assurance that the present unhappy security holders will ever get anything except a new set of junior securities that are afforded no protection against possible mismanagement throughout the 99-year period.

(*c*) It leads those working for the road to believe that their jobs will be assured and that without the adoption of your plan they will be thrown out of work. The records show that some twenty-odd miles main line of this road were abandoned in 1935 and that the receiver has approval of the Interstate Commerce Commission to abandon 102 miles in 1936. What is to become of the personnel employed on this one-hundred-and-twenty-and-odd miles? And what is to prevent the road from continuing to abandon unprofitable mileage with the approval of the Interstate Commerce Commission? The truth is that such part of the Minneapolis & St. Louis as will be reasonably self-supporting will require people to operate it, regardless of who or which system owns it. The more important the system the better the road and equipment must be maintained—the more people employed. Furthermore, under the plan now before the Commission, the Associated Railways agreed to comply with the dismissal wage agreement, recently made by the railroads and labor representatives, insofar as it applies to any labor affected.

(*d*) It offers the Reconstruction Finance Corporation a first mortgage on the railroad for a loan of $5,000,000 but places the interest on the $1,000,000 you propose to borrow from Mr. Prince ahead of it, which makes the Reconstruction Finance Corporation loan in effect a second mortgage.

Subject to approval of the Interstate Commerce Commission, the Reconstruction Finance Corporation will assist any railroad that finds itself in difficulty, in any sound reorganization plan, and desires to be generally helpful when it can. Inasmuch as there is now a Minneapolis & St. Louis plan before the Commission and the Commission is having hearings on the plan, it would appear desirable for the hearings to continue, in the expectation that some constructive suggestions will come from the Commission when the hearings have been completed.

In the light of testimony before the Shipstead committee to the effect that the road is in good physical condition and that its earnings are improving, the latter being easy to understand, due to general recovery, we will have an opportunity to reexamine the property prior to any decision by the Commission.

Certainly, if a better plan for all concerned is presented to the Commission than the one now before it, the Commission can be relied upon to act wisely and fairly toward the property.

I note with interest your statement that "the entire economic condition of the country has enjoyed an improvement and that certain statistical signs indicate strongly that this improvement is likely to go very much further."

Yours truly,

JESSE H. JONES, *Chairman.*

JUNE 4, 1936.

Hon. JESSE JONES,
Reconstruction Finance Corporation,
Washington, D. C.

DEAR MR. JONES: I have before me copy of your letter of June 3 to Philip J. Roosevelt, chairman of the Minneapolis & St. Louis reorganization committee. I am taking the liberty of calling your attention to my letters of June 1 and 2 to Mr. Roosevelt, wherein I had noted similar objections to certain features of his plan, particularly two companies, bond bonus, individual control, etc.

During the hearing before the Senate subcommittee, you stated in effect that you have at all times insisted that employees must be fully taken care of, that it was a condition of granting the loan by the Reconstruction Finance Corporation, that the plan so contemplated. You said: "Our corporation would not cooperate in any plan that did not take care of labor on the railroads." You also expressed the thought that labor would be protected under an agreement recently reached between labor representatives and railroad executives. In this connection you referred to telegram just received from Mr. Ralph Budd, president of the Burlington, about the possible application of that agreement to Associated Railways' plan of acquiring the Minneapolis & St. Louis. The telegram was made a part of the record. I quote from it:

"* * * If after study of the applicability of recent dismissal-wage agreement between railroads and labor representatives to the purchase of railroad property at foreclosure sale and the extent from a financial standpoint of the additional liability to be assumed as a result of such application it is concluded to proceed with the pending plan as so modified. * * *"

In your letter to Mr. Roosevelt, you again say that "the Associated Railroads agree to comply with the dismissal-wage agreement recently made between railroads and labor representatives insofar as it applies to any labor affected."

There is no agreement here. Rather there is uncertainty. Until it has been unequivocally decided and you are assured that employees are to be provided for under that agreement or otherwise, would it not seem undesirable for the hearings before the Interstate Commerce Commission to proceed.

Dismissal wages for employees who would lose their jobs involves a very substantial amount of money. This additional liability and the exact manner in which it is to be assumed and discharged by Associated and the several member lines is a matter of great importance. Associated's liability would need adequate guaranties by the several participating lines. This suggests the need for thoughtful consideration by those lines undergoing reorganization in bankruptcy.

Even if adequate assurances were forthcoming in this respect, it must be immediately apparent to everyone that at best they afford a temporary remedy for men who will become unemployed. As was testified to by the representative of 21 labor organizations, men generally prefer to remain at work and to be paid wages than to be idle and receive unemployment compensation in the nature of a dole.

Your letter of June 3 to Mr. Roosevelt suggests that if a better plan than the one now before it is presented to the Commission, it may be relied upon to act wisely and fairly toward the property. Obviously, no plan can come before the Commission unless it has the cooperation of the Reconstruction Finance Corporation, with its tentative commitment to participate in or provide for the financing as in the case of the present plan of Associated Railways.

Other plans of reorganization are now under consideration. The one recently submitted showed a willingness of private capital to support reorganization. Other possibilities along this line suggest themselves and may be developed under a plan of reorganization that can have the confidence of all concerned

and your support. Under all the circumstances would it not seem advisable for you to suggest to the interested parties that they join in a request to the Interstate Commerce Commission to further postpone its hearings now set to resume at Minneapolis on June 15.

With kind regards, I am,

Yours sincerely,

HENRIK SHIPSTEAD.

F. H. PRINCE & Co., NEW YORK,
Newport, R. I., June 4, 1936.

Hon. HENRIK SHIPSTEAD,
Chairman, Subcommittee, Interstate Commerce Commission,
Washington, D. C.

DEAR SIR: Inasmuch as Mr. Jesse H. Jones, chairman of the Reconstruction Finance Corporation, has seen fit to critize the proposed plan of reorganization of the Minneapolis & St. Louis, I am sending you a copy of my letter to him of this date and which it is suggested be placed in the records of the hearings of the Senate committee on the Minneapolis & St. Louis Railroad Co.

Yours truly,

F. H. PRINCE.

F. H. PRINCE & Co., NEW YORK,
Newport, R. I., June 4, 1936.

Hon. JESSE H. JONES,
Chairman, Reconstruction Finance Corporation,
Washington, D. C.

DEAR MR. JONES: I want to call your attention to a misunderstanding of the conditions under which I offered personally to loan $1,000,000 to the Minneapolis & St. Louis Railroad, if the Interstate Commerce Commission decided that it was in the public interest to keep it an independent property.

I dislike very much the insinuations that you make that this is a scheme by which a party putting up $1,000,000 would be able to use the road for personal benefit.

The $1,000,000 I propose to put up at 4½ percent would be the working capital necessary for the operating company, and for which I would simply receive the notes of the road, while your Reconstruction Finance Corporation would hold the only first mortgage. It is true, as far as the income is concerned, that the $45,000 interest I would receive would be a prior claim to your $200,000. If the road were a success, the junior securities would have the right at the end of 5 years to pay off my $1,000,000 and obtain the entire management of their property. If the road were not a success, my $1,000,000 would be represented by the advances I had made for the operation of the property and you would foreclose your mortgage. My $1,000,000 would simply become an obligation against the property, second to your mortgage. In the plan every security holder would have the same right as I have of subscribing to the capital of the operating company and on the same basis.

The security which you would receive would certainly be better than the $7,200,000 that you have undertaken to loan to the different railroads that they may use to cut up the Minneapolis & St. Louis. Three of the roads are in the hands of the courts in bankruptcy, and the only ones which are not in financial difficulties are the Burlington, Great Northern, and Illinois Central.

There can be no question as to your security being sounder based on my offer than it is on your offering the different roads $7,200,000. The only ground you can base your loan on is your endeavor to protect the millions that you have already advanced to the bankrupt roads to assist them by giving them the advantages that may be had in cutting up this property.

Furthermore, my offer of using an operating company is based on the principle which I believe should be adopted in reorganizing our railroads today and which was worked out by Philip Stockton, T. Jefferson Coolidge, and myself in connection with the railroad plan which I had hoped would be adopted and which would have saved so many properties from receivership and demoralization which exists today in the $6,000,000,000 of railroad securities which are now hanging over the heads of the people and cannot be reorganized by the system which has been adopted.

The plan of an operating company has been endorsed by Allen M. Pope, president of the First National Corporation, one of the largest, if not the largest, distributors of investment securities in the country, in his speech of June 7, 1935.

I may say further that my investment in the Minneapolis & St. Louis was made 25 years ago at the request of Mr. Hawley, and I have not been connected with any committee in the past, having remained in an independent position.

As I said to you over the telephone, the question of the Minneapolis & St. Louis is not one which so especially interests me as it is to adopt a system which I believe to be the easiest and best method of reorganizing our railroads and one which would take us out of the difficulties in which we are today.

I beg to remain, sir,

Yours truly,

ROOSEVELT & SON,
New York, June 4, 1936.

Hon. HENRIK SHIPSTEAD,
United States Senate, Washington, D. C.

DEAR SENATOR SHIPSTEAD: Thank you for your letter of June 2. You undoubtedly saw in this morning's paper that the chairman of the Reconstruction Finance Committee had turned down our reorganization plan.

I am enclosing a copy of a letter I am writing to him today proposing a new plan which calls for no money from Mr. Prince. Generally speaking, it follows the lines of your letter, except that no private capital is assured to assist the reorganization. This is a real weakness, but we are on the horns of a dilemma.

As you point out, and as Mr. Jones points out in his letter, Mr. Prince wanted a lot in consideration of his advancing $1,000,000. The credit of this property, I am sorry to say, is such that I know of nobody else who would put up money to assist its reorganization without very large concessions in the shape of possibilities for future profit and a dominating position in the future management.

We are now in the position of having been turned down when we put forward a plan in which private capital would have been interested. I am very much afraid that when Mr. Jones receives the letter I am sending him today he will turn us down because no private capital is involved in lifting the receivership, and, what is more, he will not even give us a chance to have the Interstate Commerce Commission decide upon what plan is more nearly in the public interest; at least that is what I fear.

As I see the situation, Mr. Jones is completely committed to the Associated Railways plan. In all fairness, I must say that I think he believes this plan to be a constructive one and that its effect of eliminating railroad mileage in a territory which is probably overbuilt with railroads is in the public interest. In short, I think the chairman of the Reconstruction Finance Corporation is entirely sincere, but I do not think he has fully considered the effect upon the security holders, or upon the territory served, or upon labor, and I think he grossly underestimates the real economic advantages involved in the use of the Peoria gateway.

Incidentally, as I write this letter, I am under great temptation to lose my temper. My first knowledge of Mr. Jones' letter to me came when I read it in the New York Times this morning. I have always been brought up to believe that no greater discourtesy could be offered a correspondent than to give a letter you are writing to him to the press before he had an opportunity to receive and read it. However, as I have previously explained to you on the stand, I am in the position where I must keep my temper and try to be patient with the Reconstruction Finance Corporation because I am dependent on a loan from them for any plan which I may ever hope to consummate.

I am very much afraid that last Monday, when you gave to the newspapers the plan that I submitted to Mr. Jones, under date of May 29, that it was a strategic mistake and that we might have had a better chance of getting our loan if there had been no newspaper comment upon our application. However, I am quite sure that your judgment in these matters is far better than mine and if you wish to make any statement in respect of this application to the press or to the fellow members of your committee, I am happy to be guided entirely by your judgment.

In order that everything may be absolutely open and aboveboard, I am sending a copy of this letter to the chairman of the Reconstruction Finance Corporation.

Very truly yours,

PHILIP J. ROOSEVELT.

P. S.—I have just noticed that the letter to me from the Reconstruction Finance Corporation was sent special delivery and postmarked 8 p. m., June 3, 1936, at Washington. P. J. R.

JUNE 4, 1936.

Hon. JESSE JONES,
Chairman, Reconstruction Finance Corporation,
Washington, D. C.

DEAR MR. CHAIRMAN: I have your letter of June 2 rejecting the plan of reorganization for the Minneapolis & St. Louis Railroad, submitted to you in my letter of May 29.

I am enclosing another plan of reorganization which at least meets all the objections in the paragraphs lettered (*a*), (*b*), (*c*), and (*d*) on page 1, of your letter of June 2, and paragraph lettered (*d*) on page 2, of your letter. I want to direct particular attention to the following quotation from your letter of June 2 at the bottom of page 2:

"Inasmuch as there is now a Minneapolis & St. Louis plan before the Commission, and the Commission is having hearings on the plan, it would appear desirable for the hearings to continue, in the expectation that some constructive suggestions will come from the Commission when the hearings have been completed."

I feel sure that you are not so naive as to fail to appreciate just what the situation is. As you know, the Commission will not consider any reorganization plan unless they have reasonable assurance that it can be underwritten. The Minneapolis & St. Louis, depending as does every other railroad in receivership or bankruptcy upon the good offices of the Reconstruction Finance Corporation for assistance in lifting the receivership, is debarred from putting its case fairly before the Commission unless the Reconstruction Finance Corporation will agree to underwrite a loan to assist in lifting the receivership. We cannot submit any alternative plan to the Commission which is dependent upon an underwriting from the Reconstruction Finance Corporation unless you and your board will signify that if our plan meets with the Commission's approval you will be willing to advance the necessary money to consummate it. In all fairness it would seem to me that the proper procedure would be for your board to signify its willingness to advance money for the reorganization of the Minneapolis & St. Louis as a unit in the event that the Commission feels that the reorganization of the property as a unit more nearly serves the public interest than does the dismemberment under the plan of the Associated Railways.

In regard to your characterization of the plan submitted by me on May 29 as a "delusion", I should like to take this opportunity to make the following observations:

The paragraph lettered (*a*), I frankly do not understand. Paragraph lettered (*b*) reads as follows—(p. 2):

"There is no assurance that the present unhappy security holders will ever get anything except a new set of junior securities that are afforded no protection against possible mismanagement throughout the 99-year period."

What assurance is there for "the present unhappy security holders" in the plan of the Associated Railways? My committee would most assuredly appreciate a categorical statement showing what the bondholders of each of the defaulted issues may hope to receive, if anything, out of the Associated Railways plan. The plan of the Associated Railways makes no mention whatever of the security holders. Under that plan no security holder is afforded any notion of what he may receive, and it is only by making certain assumptions that we are able to compute that all the security holders put together can receive will not exceed $3,000,000. I am now advised by the road's counsel that this estimate of $3,000,000 is probably too high for the amount that all the security holders will receive under the plan of the Associated Railways. On the other hand, under the plan which I submitted to you, under date of May 29, as well as under the plan I am enclosing herein, the security holders are given an opportunity to preserve whatever equity there may be for them in this property. Opinions will differ as to what this may amount to, and I

have no question that you are sincere in your belief that it amounts to very little. I hope you will credit me with an equal sincerity in my belief that it is not impossible that this road might earn $3,000,000 in a year for the security holders over and above the interest on the loan for which I am asking from the Reconstruction Finance Corporation and that if about $2,000,000 could be spent on the property it should earn $1,250,000 a year or more available every year to pay interest on the Reconstruction Finance Corporation's loan and the other securities which it is proposed shall presently be outstanding. So that, comparing the enclosed plan with the plan of the Associated Railways, from the point of view of the security holders, under the Associated Railways plan the security holders don't know what they get, but are assured that it will be infinitesimal, with no hope of any participation in any possible future prosperity, whereas under any plan for reorganizing the property as a unit the security holders will have an opportunity to receive whatever their equity in the property may be.

In regard to your paragraph lettered (*c*), on page 2 of your letter of June 2, which deals with labor, the agreement of the Associated Railways to comply with the dismissal wage agreement has only recently been injected into this situation. What I want to know is, where is the money coming from to comply with this agreement. Under the plan of the Associated Railways, the Associated Railways has absolutely no capital or responsibility beyond the loan, made to it by the Reconstruction Finance Corporation. If your Corporation has agreed to underwrite the payments to the men under the dismissal wage agreement, the loan you have offered the Associated Railways is not any better secured than the loan proposed in the enclosed plan. On the other hand, if these payments are to be assured by the railroads which are interested in the Associated Railways (three of which are bankrupt), it would seem that the assurance to the discharged men would not give them much upon which to rely.

The dismemberment of the system, the abandonment of substantial parts of it, and its operations in part as "stubs" of a number of other railroads is not going to produce increased gross earnings. The expense of operating such parts of it as are maintained will not be reduced through any substantial reduction in the cost or amounts of materials and supplies. Therefore, if there are to be greater net earnings under the Associated Railways plan, these net earnings must wholly come from savings in labor expenses under that plan as compared with a plan to reorganize the property as a unit. The plan enclosed herewith seems to me to have the following advantages as compared to the plan of the Associated Railways:

1. It calls on the Reconstruction Finance Corporation for an advance of $6,000,000 as against $7,200,000 called for under the Associated Railways plan.
2. There will be no such dislocation of transportation service as is proposed under the Associated Railways plan.
3. The organization and pay roll will be pretty well continued as at present.
4. The security holders are given a chance to recover whatever equity there may be for them in the future earnings of the property.

Will you not take this matter up with your board and agree to afford us an equal opportunity to lay this plan before the Interstate Commerce Commission in comparison with the Associated Railways plan, by agreeing, subject to approval of the Interstate Commerce Commission and the court, to lend us the $6,000,000 herein applied for in the event that the Interstate Commerce Commission finds it to be more in the public interest that you should make this loan than that you should make the loan of $7,200,000 to the Associated Railways.

Yours very truly,

JUNE 4, 1936.

In order to lift the receivership of the Minneapolis & St. Louis Railroad, it is proposed that a new company be formed. The capitalization of the new company, which will own and operate the property, will be as follows:

Name: Minneapolis-St. Louis R. R. Co.:

First-mortgage bonds bearing 4 percent interest, due in 10 years, and to be given to the Reconstruction Finance Corporation as security for a loan in the amount of $6,000,000	$6,000,000
Adjustment mortgage income bonds, approximately	12,000,000
Capital stock, shares of no par value (see below)	120,000

The stock of the new company will be held entirely by the Reconstruction Finance Corporation as trustee, subject to an option to the holder of each adjustment mortgage income bond to buy 10 shares, at $10 per share.

The first-mortgage bonds of the new company are to be authorized in the amount of $15,000,000, but no additional bonds other than the $6,000,000 of series A bonds to be presently issued to the Reconstruction Finance Corporation may be issued without the consent of the Reconstruction Finance Corporation as long as the property is in any way indebted to the Reconstruction Finance Corporation.

Issue	Amount of issue at present outstanding	Par value new adjustment income bonds to be received
Minneapolis & St. Louis consolidated 5's	$5,282,000	$3,127,000
Iowa Central first 5's	7,650,095	3,787,000
D. M. & Fort Dodge first 4's	3,072,000	1,251,000
Minneapolis & St. Louis refunding 4's	13,244,000	2,183,000
Iowa Central Refunding 4's	7,156,000	500,000
Minneapolis & St. Louis extension 5's	7,882,000	524,000
		11,372,000
For 20 percent of principal of Merriam Junction & Albert Lea mortgage		190,000
For 25 percent of principal of preferred claims		438,000
Total adjustment mortgage income bonds		12,000,000

Disposition of cash

Cash to be received from proceeds of first-mortgage bonds given to the Reconstruction Finance Corporation		$6,000,000
To be used for—		
Retiring receivers' certificates in full	$1,185,000	
Not to exceed 80 percent of the principal of Merriam Junction and Albert Lea bonds	760,000	
Not to exceed 75 percent of the principal of preferred claims	1,312,000	
		3,257,000
Balance of cash remaining, to be used for court allowances, new equipment, additions and betterments, working capital of new company, etc		2,743,000

NOTE.—Equipment trusts of present company, now outstanding in the amount of approximately $060,000, are to remain undisturbed.

POSSIBLE MODIFICATION

The stock of the new company might be optioned to the holders of the adjustment mortgage income bonds to buy 10 shares per $1,000 bond at $50 a share, instead of $10 a share. Any money realized from the exercise of such options to be used to pay off the Reconstruction Finance Corporation.

JUNE 9, 1936.

Mr. PHILIP J. ROOSEVELT,
New York City, N. Y.

MY DEAR MR. ROOSEVELT: I have not heard from Mr. Jones since I last wrote you, except that the papers state that the Interstate Commerce Commission hearing is going to continue as scheduled. He has stated for the press that he hopes some plan can be brought forward by the Interstate Commerce Commission.

In that regard I am confident you are right. It is not the business of the Interstate Commerce Commission to bring forth any plan. They will examine any plan brought to them for consideration; and, of course, under the law, they will be requested by the Reconstruction Finance Corporation to investigate the purposes of any proposed loan, the ability of the borrower to pay, and the adequacy of the security. As a practical matter, no plan other than the

associated plan can come before, or be considered by, the Interstate Commerce Commission if dependent on Government financial aid unless first submitted to and tentatively approved by the Reconstruction Finance Corporation.

I do not know just what the Reconstruction Finance Corporation is going to do, but in the last analysis, if they insist on selling the road under the Jones plan to the Associated Railroads, I do not believe that any court would have the courage to accept such a bid or would be a party to such a transaction. The road is earning its operating expenses and is paying off its indebtedness. Having been in receivership all these years, it seems to be doing very well under the new management, and I do not hesitate to express the opinion that it will be in better shape a year or two from now than it is today. I do not see any need for hurry in selling the road. I do not think there is any danger it will be sold. However, the sooner the reorganization under the plan proposed can be effected, the better it will be.

With kind personal regards, I am,

Yours sincerely,

HENRIK SHIPSTEAD.

JUNE 10, 1936.

Hon. JESSE H. JONES,
Chairman, Reconstruction Finance Corporation,
Washington, D. C.

DEAR MR. JONES: In my discussions with you in your testimony before the subcommittee, and in various statements and letters from time to time made public, you indicate what I conceive to be a misunderstanding about the Interstate Commerce Commission and its jurisdiction over all phases of the Minneapolis & St. Louis Railroad matter. You assume it has powers and duties which it has indicated it does not have.

May I point out that the Commission's 1935 annual report indicate that it perhaps is not authorized to deal fully with questions of unemployment arising from consolidations, abandonments, etc. Its late decisions are to the effect that in cases of this sort the displacement of labor may not be a factor in its consideration of the question of public convenience and necessity.

The Interstate Commerce Commission may not consider other plans nor does it suggest other plans. It considers only the application before it, the plan of the Associated Railways. As a practical matter, that is the only plan that can come before it, if we may assume that other plans can be formulated only with the aid of the Reconstruction Finance Corporation and its tentative approval.

The Interstate Commerce Commission is not concerned about the adequacy of price on foreclosure sale and does not consider effects of such sales on security holders. The examiner so ruled in the Minneapolis hearings and Mr. Sweet so testified here.

The Interstate Commerce Commission, in passing upon Reconstruction Finance Corporation loans to railroads, is concerned only in the purposes of the loan, the adequacy of the security, and, of course, the ability of the borrower to continue to discharge its public functions.

As you know, I am greatly concerned about the situation as it may affect employees. Have you heard further from the several associated railways about their attitude in this important phase of the matter? As has been pointed out dismissal wages are not favored over continued employment but the need to provide them is as real whether it arises from a proposed foreclosure sale to be followed by dismemberment as in any other form of consolidation. Here it will result in much greater degree. From reliable sources I am advised that more than $10,000,000 will be required to provide dismissal wages to 80 percent of the railroad's employees who would lose their jobs. That is if the recent agreement between representatives of labor and the railroads is applied. I assume that if this plan should go through that the Reconstruction Finance Corporation will insist upon its application and to the extent that it does not cover those who are not members of labor organizations other provisions will be made to take care of them before Government funds are made available.

I am advised that hearings before the Interstate Commerce Commission are to resume at Minneapolis on June 15. It seems to me it would have been better had they been delayed until the labor situation had been cleared up. It also seems exceedingly doubtful that any such plan for the Minneapolis & St. Louis can ever have final approval of a court. The railroad's current performance

suggests that now there is a chance, at least, that the value of the equity of the bondholders may be reestablished to some extent. That the interest of the bondholders may be practically wiped out at a foreclosure sale such as is contemplated by the Associated Railways' plan, seems so inequitable that there is remote likelihood that it will occur, in my opinion.

Under all the circumstances it would seem wiser to await further hearings before the Interstate Commerce Commission until there could have been concurrently submitted to it a plan of reorganization of the railroad which would have Reconstruction Finance Corporation support. No possible harm can result if the railroad continues in receivership for a time longer. It would be a great deal better than to continue efforts to dismember it in furtherance of the Associated Railways' plan.

Very truly yours,

HENRIK SHIPSTEAD.

[For release Friday morning papers]

JUNE 11, 1936.

Hon. JESSE H. JONES,
Chairman, Reconstruction Finance Corporation, Washington, D. C.

DEAR MR. JONES: In the Minneapolis & St. Louis matter, may I supplement what was said in my letter of yesterday about the question of value by calling your attention to the new bankruptcy act for railroads, in which the powers and the duties of the Interstate Commerce Commission are enlarged. It is no reflection on any court to suggest that it very well might wish aid and advice on this very important question of value; that its large responsibility might be shared by an administrative body having experience, personnel, and facilities for full inquiry.

Under foreclosure and purchase under the final decree as contemplated by Associated Railways, no way suggests itself in which the Interstate Commerce Commission can be helpful to the court on the question of adequacy of price. It needs only to be sure the proposed Reconstruction Finance Corporation loan is small enough to be adequately secured.

If the Interstate Commerce Commission were in a position to advise the court, one would scarcely expect it to approve or suggest any such value as $7,200,000, a figure wholly disproportionate to its value for rate-making purposes, $45,000,000, or even its salvage value, said to be not less than $17,000,000, or its value on a basis of capitalized earnings, $15,000,000 to $20,000,000. I cannot conceive of Interstate Commerce Commission or judicial approval of any such figure as $7,200,000.

Very truly yours,

HENRIK SHIPSTEAD.

[Telegram]

MINNEAPOLIS, MINN., *June 5, 1936.*

HENRIK SHIPSTEAD,
United States Senator.

Answering your inquiry transmitted by Edwards as to amount involved if recent agreement between carrier management and employees be made effective to Minneapolis & St. Louis, estimate is as follows: The total amount of the Minneapolis & St. Louis pay roll for year 1935 was $4,648,918. Deducting from this amount the amount of the annual pension pay roll of $28,499 leaves total of $4,620,419. We have estimated that this amount may be divided as between 15-year employees, $2,460,186; 10-year employees, $1,939,305; and 5-year employees, $220,928. Assuming that only 20 percent of the Minneapolis & St. Louis employees will be retained and that 80 percent of the number of employees at present will elect to receive 60 percent of their present compensation for a period of 3, 4, or 5 years according to their length of service, and assuming further that the pension pay roll will be paid each year, we estimate that for first 3 years the amount required will be $2,246,299 per year; for the fourth year amount required will be $2,140,254; and for the fifth year $1,209,388, making total for 5-year period of $10,088,539.

C. W. WRIGHT.

STATEMENT OF HON. ERNEST LUNDEEN, MEMBER OF CONGRESS, THIRD DISTRICT, MINNESOTA, ON THE BENSON RESOLUTION (S. RES. 287) TO INVESTIGATE THE PROPOSED MINNEAPOLIS & ST. LOUIS DISMEMBERMENT

The resolution under consideration asks that the Interstate Commerce Commission withhold approval of the proposed dismemberment of the Minneapolis & St. Louis Railroad until a committee of Senators can investigate the social and economic effects of the proposed sale and the origin of the proposal. I hope this resolution will be favorably reported out by the committee and passed by the Senate. The people of Minneapolis and Minnesota and other States affected have a right to know just what the effects of this dismemberment will be and why it is being advocated when State and municipal officials, business, labor, and the Farmer-Labor Party of our State are definitely opposed. Why is this plan being advanced? Who is behind it? These facts must be brought out before the Interstate Commerce Commission is permitted to pass upon the proposal.

Of the eight railroads composing the Associated Railways Co., which was formed to bring about this purchase, one has already withdrawn. The Great Western Railway withdrew when its officials learned that the public is opposed to the plan, that more than a hundred communities would be deprived of services they now enjoy, and that more than 3,000 Minneapolis & St. Louis employees will be imperiled. The other companies composing the Associated Railways are the Great Northern, Burlington, Illinois Central, Soo Line, Rock Island, North Western, and Milwaukee roads.

MINNEAPOLIS BUSINESSMEN OPPOSE DISMEMBERMENT

The Minneapolis city council retained a special attorney, Charles E. Elmquist, who is also attorney for the Minneapolis & St. Louis executive defense committee. George K. Belden is chairman of the businessmen's committee assisting in opposing the dismemberment plan. Businessmen of Minneapolis realize that loss of jobs for more than 1,000 Minneapolis employees would be a serious economic blow to the city. The grocers, butchers, bakers, and creditors of these employees are concerned.

Minneapolis businessmen are interested in this matter to the extent that they conducted a tour over the Minneapolis & St. Louis line to check up on reports of the road's condition. They found in a 1,000-mile trip over the Minneapolis & St. Louis line to Peoria, Ill., and return, that stories about the broken-down condition of the road were greatly exaggerated. Their trip took them through Albert Lea, Mason City, Marshalltown, Oskaloosa, Des Moines, and Fort Dodge. They took a special train. Their party was composed of 35 businessmen. They found the railroad made average passenger-running time. They made comments on the smooth-riding qualities of the trackage. This committee found throughout Iowa and southern Minnesota a growing support of the railroad. They passed through 90 miles of track scheduled for abandonment between Fort Dodge and Albert Lea. Immediately upon their return they began active solicitation of defense funds. They appointed captains of defense teams, and they are now calling on merchants and others directly affected.

FINANCIAL CONDITION OF MINNEAPOLIS & ST. LOUIS AND OTHER RAILROADS

When we compare the financial condition of the Minneapolis & St. Louis with the financial condition of the railroads wishing to purchase the Minneapolis & St. Louis, we wonder what is back of this move. It happens that the Minneapolis & St. Louis owes the Reconstruction Finance Corporation nothing. The North Western is indebted to the Reconstruction Finance Corporation for $46,589,000, according to the January statistical number of Railway Age. The Minneapolis Tribune reports that the Milwaukee has debts of $12,000,000; the Rock Island, $13,718,700; the Illinois Central, $17,863,000, with an application for $7,488,000 more; the Soo Line, $6,843,002. The Minneapolis & St. Louis management expects to make a net of $750,000 or more this year. This would be a 5-percent return, which most railroads have not been making in recent years.

The Minneapolis terminal of the railroad alone has been valued by the Interstate Commerce Commission at more than $4,000,000, and the entire system at more than $35,000,000. The Associated Railways are trying to get this prop-

erty for $7,200,000, and the Reconstruction Finance Corporation is apparently willing to loan $4,750,000 to the Associated Railways to finance the reorganization of the Minneapolis & St. Louis. It appears that the Reconstruction Finance Corporation offer, made in 1934, preceded by a few months the efforts of these seven railroads to purchase the Minneapolis & St. Louis. The people of Minnesota and the Northwest have a right to know why the Reconstruction Finance Corporation made this offer apparently before being requested to do so, and why the chief examiner of the railroad division of the Reconstruction Finance Corporation continues to play an important part in the hearings being conducted at the present time in the various States affected. The people of these States are overwhelmingly opposed to the plan. Many of those who have attended the hearings held by the Commission in the districts affected have reached the conclusion that the matter would never have been seriously considered had it not been pressed by agents of the Reconstruction Finance Corporation. Witnesses have been unable or are unwilling to furnish evidence showing the origin of the plan. The present earnings seem to justify a capitalization of more than the Associated Railways offer to pay.

Under these circumstances, we demand a thorough investigation of the origin of the plan to dismember the Minneapolis & St. Louis Railroad. We want to know the motives back of it. The people have a right to know the economic and social results of such a plan. I have a mandate from the people of the Third Congressional District of Minnesota to oppose dismemberment of the Minneapolis & St. Louis Railroad. I am serving on a congressional committee created to prevent this dismemberment. From the first moment the attack began, from the very first mention of dismemberment, we answered the attack. We went into the front lines to repel those who for selfish reasons planned the dismemberment of this railroad. The Benson resolution will give us the information needed. When I endorse this resolution, I speak for the citizens of Minneapolis, St. Paul, Hennepin County, Excelsior, Hopkins, and other communities in Minnesota.

ERNEST LUNDEEN,
Member of Congress, Third District, Minnesota.

[Telegram]

CLEVELAND, OHIO, *June 10, 1936.*

CHAS. A. JORDAN,
House Member, Washington, D. C.:

Proposed dismemberment of Minneapolis & St. Louis is an economic crime and financial piracy. It would result in unnecessary increased unemployment and in wanton destruction of service to shippers. This road is needed for growing needs of Northwest now and for national defense in an emergency. My complete support to Senator Shipstead in his courageous fight to prevent this tragedy.

MELVIN J. MAAS, M. C.

HOUSE OF REPRESENTATIVES,
Washington, D. C., June 10, 1936.

Hon. HENRIK SHIPSTEAD,
Chairman, Subcommittee of the Committee on Interstate Commerce,
United States Senate, Washington, D. C.

MY DEAR SENATOR: As per my telephone conversation with your office, I am attaching statement which I have prepared for inclusion in the hearings on the proposed dismemberment of the Minneapolis & St. Louis Railroad, and also copy of a letter written to me by William Andrew Hayes, which deals with the financial structure of the Minneapolis & St. Louis Railroad to be inserted together with my statement.

Most sincerely yours,

FRED H. HILDEBRANDT.

WASHINGTON, D. C., *December 7, 1935.*

DEAR MR. HILDEBRANDT: Re Minneapolis & St. Louis Railroad Co. This company is a consolidation of several roads. It was incorporated in Minnesota in 1853. Its administrative office is in Minneapolis (Transportation Building). Its fiscal office is in New York City (25 Broad Street). It has been in receivership since July 26, 1923. The receivers are L. C. Sprague and John Jnnelle; W. B. David, director, 25 Broad Street, New York City, is agent for receivers.

Directors: W. B. David, Pierpont V. Davis, W. P. Hawley (vice president), W. I. Crandall, F. M. Tompkins (secretary), C. H. Seymour, all of New York City; S. B. November, Baltimore; W. H. Brenner (deceased), E. E. Nash, F. A. Chamberlain, Minneapolis; and C. E. Harriss, New York City. Note: Of 11 directors, 7 are New Yorkers, and all are identified with the money lenders.

A stockholders committee was set up about August 2, 1923, with office at 55 Wall Street, (National City Bank). The committee is inactive, and has been so for a long time, because, as one of the committee, Mr. Davis, said "We can't get the stockholders to send us money to keep it alive." The committeemen are: Pierpont V. Davis, W. P. Hawley, W. B. Davids, S. B. November, C. E. Graham and James McLean (secretary). H. L. Bell, 25 Broad Street is counsel. Note: Four of the committee are directors and are or were identified with the money lenders. Of the others, C. E. Graham is a railway supply man at 61 Hudson Street, New York City, and James McLean is an employee of the National City Bank, one of the (but undisclosed) money lenders. Bell, the law counsel is hand-in-glove with the moneylenders. We are entitled to the belief that there is a strong presumption of bias there. Davis, formerly with National City Bank and later with Brown Bros. Harriman Co.

The company operates mainly in Iowa, South Dakota and Minnesota. Trackage (Dec. 31, 1933), 1607.02 miles; trackage rights (Dec. 31, 1933), 113.43 miles, main lines, Minneapolis to Peoria, employees (Dec. 31, 1933), 3,280; outstanding stock (Dec. 31, 1933), 257.926 at $100; number of stockholders (Dec. 31, 1933) 2,393.

Funded debt (Dec. 31, 1932), $44,895,000; mortgages held by Guaranty Trust, Central Trust, and National City Bank; Guaranty Trust and Central Trust foreclosed in 1923 (1924(?)). Their claims were consolidated with the claim of Minneapolis Steel & Machinery Co., for rolling stock (192 locomotives, 93 passenger rars, 5,342 freight cars). There seems to be some secrecy about the debt due National City Bank ($95,000, balance of first mortgage extended 6c), for there is no mention made of it in any public report I have seen.

NOTE.—National City Bank through employees as directors took active part in management of company, and as members of the committee, took an active part in representing (?) stockholders.

The reported causes of the failure of the company are "poor roadbed and rolling stock, light traffic, lack of territory development, low freight rates, poor paying branch lines, all owing to insufficient funds.

NOTE.—For what were $45,000,000 borrowed!

How was the money spent?

NOTE (2).—One of the unpaid preferred claims (Minneapolis Steel & Machinery Co.) was for a lot of good rolling stock.

The property was advertised to be sold in foreclosure proceedings about June 11, 1935. The road was to have been dismembered and parceled out to eight trunkline roads running out of Chicago (viz, Burlington; Chicago, Milwaukee, St. Paul & Pacific, Chicago Great Western, Great Northern, Illinois Central, Norfolk & Western, Rock Island, and Wabash).

More than 100 miles branch lines in Iowa were abandoned by order of court on motion of receivers, in 1935.

Ninety-two percent of the company's income came from freight traffic.

Balance sheet shows funded debt to be $44,879,480; receivers' certificates, $1,185,000 (unpaid); interest on funded debt, $25,855,988, a total of $71,920,468, as against a stock capitalization of $25,242,870. The difference between this sum and the sum set out in paragraph 5 hereinbefore is made up of "stock

liability for conversion", $550,513, said to be held in the treasury, but probably more correctly, unissued. Authorized capital is 26 millions.

The road has been in financial difficulty for a long time. In 1894 it was sold in foreclosure proceedings and was reorganized under its current name.

If the Reconstruction Finance Corporation plan to cut up the road and distribute its parts to the eight trunk-line roads is carried out, it will work a great injustice, amounting almost to crime in that it will: (1) Destroy all hope of saving any part of their investment of stockholder,owners; (2) make problems of food, shelter, and clothing for many employees and their families; (3) deprive shippers and other users in a large territory of the roads services; (4) retard the development of a large and important section; (5) impose an unjust burden of debt on the stotckholder-owners of the eight trunk-line roads without their consent; (6) encourage similar depredations by high finance with the expectation of a similar settlement.

The whole tragic situation of the road invites our best thought. Here is a railway property financed by the people it serves. Presumably additional capital was needed for expansion and improvements. Money lenders seize the chance and build up an indebtedness of approximately three times the equity, not for the purpose of helping the road, but to make money. Their customers demand a vehicle investment for their surplus funds. One is made to order. Result: bondholders and stockholders lose, but the money lenders make plenty.

The situation invites these questions: (1) How much borrowed; from whom borrowed; the cost of the borrowing of the funded debt assumed by the company when organized or reorganized in 1894? (2) For what purpose was the money used? (3) Was the assumption of the debt legal? (4) Itemize answer to 1.

Answer, also: (1) How much; from whom borrowed; the cost of borrowings of funded debt since the reorganization in 1894? (2) Give all items in answer to 1. (3) For what purpose was the money used? Itemize the answer.

Did the company have the legal right by charter or law to assume the debt, or to make the new debt? Were stockholders fully informed? Did they knowingly consent?

There are 2,393 stockholders and 3,280 employees, a total of 5,673. Assuming that each heads an average family of four, there are more than 22,000 people interested in the fate of this road, in an empire larger than England or France.

I believe a House investigation would stop the crime and save the road for its patrons and owners. High finance can't afford to have any more spotlights thrown on its performances.

Very truly yours,

WM. ANDREW HAYES.

STATEMENT OF REPRESENTATIVE FRED H. HILDEBRANDT BEFORE THE SENATE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE: The proposed dismemberment of the Minneapolis & St Louis Railroad has been under consideration for a long time. I may also say without exaggeration that it has been under constant criticism from practically the entire population of the affected area. In my congressional career and my other experiences in public life, I have seldom observed an issue on which opinion was so nearly unanimous as this. The people of the section involved certainly do not want this dismemberment and consolidation. They are emphatically and unmistakably against it. They have registered their attitude in the most specific and definite way possible, time and time again. If the will of the citizens is to be followed, the proposal will be turned down.

It has always been my policy to give particular consideration to the average citizen; therefore, in looking at this suggested dismemberment, I am thinking especially of the workers who will lose their jobs and incomes; of their wives and children and other dependents; of the communities that will be disrupted and thrown into the discard; of the farmers who will have to haul agricultural products, milk, cream, and livestock, to stations on another line and do their buying at another point, at great expense which they can ill afford to bear; of land values that are already low and will be reduced still further if numerous small towns are virtually wiped off the map through the abolition

of their railroad stations; of passenger service that will be eliminated to the detriment of the residents of the territory, causing them inconvenience and costing them more than they are able to spend; of mail accommodations that will be cut down in a rural region where mail is one of the finest services provided by the Government for the citizen; keeps him in touch with his friends and relatives, and informs him of the events of the world, and of the disaster that will naturally come to industries in these little villages and hamlets—for their industries will in many instances be unable to continue if the railroad is removed.

I know the arguments employed in defense of the consolidation and of similar measures in general. Efficiency and economy are the usual explanation. But in whose interest? That of great and wealthy corporations, to be sure. Not that of the farmers, workers, and men running small stores and shops under difficult and trying circumstances. Isn't it about time that we paid attention to the needs and rights of this latter contingent of our population? We have been doing so in New Deal legislation which aims to assure the more abundant life for the producer. Let us do so, as well, in regard to proposals such as this.

Human rights should come before property rights. If society wants to compensate these railroadmen who will be deprived of employment and the multitude of others who will suffer from the consolidation, I shall perhaps withdraw my opposition. But unless it is willing to do so, it has no moral right to carry out a ruthless program that will undoubtedly save cash for the corporations while it spells privation for thousands of people.

The humble citizen in a crossroads town lacks the funds for hiring able legal counsel in such a matter. He must, in all probability, grin and bear it if the Government decides to abolish the railroad in his neighborhood, disemploy large numbers of workers, and strip him and his fellow citizens of a meager living. The railroads have unlimited resources in such cases. They can hire the best attorneys in the United States and usually do.

I am here to speak for those who will suffer grave damage if the dismemberment of the Minneapolis & St. Louis Railroad becomes a reality.

While I strongly object to placing money considerations above human values, there is an excellent case against consolidation, even from a monetary standpoint. The efficiency experts have failed to furnish convincing proof of the wisdom of the proposal.

Extensive hearings have been held on the subject and they have clearly indicated that the merger would be very detrimental to all concerned. The Great Northern, you may recall, offered to take over the Minneapolis & St. Louis and pay an annual rental of $600,000, which is the equivalent of interest at the rate of 5 percent on $12,000,000. If that sum could be paid during the depression, it is not hard to understand why the interested roads are willing to divide this property for the sum of $7,200,000.

Remember, also, that the sections in South Dakota, Minnesota, and Iowa, that are threatened with abandonment and broken service have in former years been heavy shippers. It is not the best economy to terminate service in a section in which such extensive shipments have been made and would undoubtedly continue to be made.

Large sums have been received in taxes from the Minneapolis & St. Louis. It is my understanding that in 1935 over a quarter of a million dollars was paid by the company in four States—the exact sum, as reported to me, being $275,509.36. Even if service is maintained by means of other roads, the income from taxes will be materially lessened. This money, which has been available from taxation of the Minneapolis & St. Louis will have to be raised in another way. It is doubtful if the deficit can be balanced from other sources. In justice to the railroad, it should be mentioned that it has frequently paid its taxes in advance so that certain schools could be kept open. I hold no brief for any corporation, but I submit that a corporation cooperating in civic needs in such a way, should be regarded more highly than corporations which have never given assistance locally in times when assistance was urgent.

Even if a staggered plan of compensation were provided for employees of the Minneapolis & St. Louis, who will lose their jobs, it would not cover the communities that will be virtually destroyed by the contemplated order. You can repay men for the salaries they were receiving, but it is difficult to reimburse whole towns for the business, traffic, and trade that will be shifted elsewhere.

The farm owners, the proprietors of little stores, and the many who are affected directly or indirectly by the prosperity or adversity of their neighbors, will be hit hard by this proposal.

If investments are to be placed in the balance, let us think a bit of the investments of the men who staked their small savings on the permanency of the Minneapolis & St. Louis. They are investors, too.

STATEMENT OF HON. PAUL J. KVALE

Mr. Chairman, let me thank the committee for this opportunity to add my voice to the others that have been raised in protest against the proposed action of the Reconstruction Finance Corporation which would permit the dismemberment of the Minneapolis & St. Louis Railroad.

I shall not impose upon the committee, or clutter the record with repetitions of arguments and facts that have been and will be laid before it by abler minds than mine. I shall content myself with the brief observation that the areas served by this railroad owe a debt of gratitude to the Senators that have waged this fight against a proposal so unjust that in effect it becomes a financial rape, if consummated. In the House of Representatives, under the able and untiring leadership of Representative Fred Hildebrandt of South Dakota, a committee of us instituted this protest and are happy to have kept it alive until now the Senate action seems to have achieved the desired result.

Others will have told you of the financial details, of the statistical information that proves the corporation worthy of further help and life, and that gives the direct lie to those who would tear it apart for the selfish profit of other rail systems at a ridiculously low fraction of its real value. I confidently expect the committee to take prompt action that will insure continued and complete rail service to the areas that are directly affected by this proposal. Four States are involved, my own congressional district perhaps as greatly as any particular section. I thank the committee once again.

HOUSE OF REPRESENTATIVES,
Washington, D. C., June 10, 1936.

Hon. HENRIK SHIPSTEAD,
United States Senator, Washington, D. C.

DEAR SENATOR SHIPSTEAD: Herewith is a statement in reference to the proposed sale and dismemberment of the Minneapolis & St. Louis Railroad. I am sending this to you to be included in the record of the hearings your committee has conducted in this matter.

With best wishes, I am

Sincerely yours,

HERBERT UTTERBACK.

STATEMENT BY HUBERT UTTERBACK

In my opinion the sale of the Minneapolis & St. Louis Railroad and its dismemberment would hinder the movement of freight between north and northwest Iowa and southeast Iowa resulting in higher costs to shippers. It would leave a number of communities without railroad service; would cause great hardships to business institutions in those communities; and would imperil the jobs of faithful employees of the Minneapolis & St. Louis. The loss of the Minneapolis & St. Louis's substantial pay roll would affect business seriously in several Iowa cities, where the Minneapolis & St. Louis is now an important enterprise, and cause unemployment.

I am advised that this railroad is now operating at a profit, without regard to interest on the top-heavy funded debt, sufficient to pay 5 percent interest on approximately $10,000,000. The business of the railroad is increasing and it is estimated that under faborable conditions, such as we can anticipate soon, in Iowa and throughout the country, the Minneapolis & St. Louis should be abue to earn 5 percent on approximately $20,000,000.

It appears that this railroad is the victim of the Wall Street financial wrecking crew which piled up a debt impossible to carry. There is a long time funded debt of $46,000,000. Interest unpaid since the receivership began in 1923 totals about $31,000,000.

Under the receivership, substantial improvement has been made in the physical properties of the railroad, a splendid spirit has been fostered among the employees, and an aggressive management has been successful in developing a substantial volume of new business.

I can see no good reason why this railroad should be sacrificed for $7,000,000 which would pay the bondholders very little and cause great hardship among employees and patrons, when it has been demonstrated clearly that the railroad can pay reasonable return on a much larger capitaliztion and at the same time insure jobs to hundreds of faithful employees. I do not think either patrons or employees should be made to suffer for the financial debacle caused by a bunch of Wall Streeters. I think the railroad can and should be reorganized on a sound conservative financial basis and its individuality preserved.

I hope that the sale of this railroad property for $7,000,000 to a group of competing railroads who wish to dismember the line and abandon substantial trackage will not be permitted. The Minneapolis & St. Louis has had a long history as a valuable railroad property in the State of Iowa and was able to operate successfully even with an excessive debt until its revenues were seriously depleted by the depression. Now, with better days ahead, it seems to me that the road should be continued as an individual enterprise instead of being broken up.

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